AICPA peer review program manual, as of April 3, 1995; Peer review program manual, as of April 3, 1995

American Institute of Certified Public Accountants. Peer Review Board

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AICPA
PEER REVIEW PROGRAM MANUAL

As of April 3, 1995
AICPA

PEER REVIEW PROGRAM MANUAL

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

As of April 3, 1995
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HOW TO USE THIS VOLUME

Scope of the Volume . . .

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

How This Volume Is Arranged . . .

The contents of this volume are arranged as follows:

   Introduction
   Information About the Administration of the AICPA Peer Review Program
   Standards for Performing and Reporting on Peer Reviews
   Guidance on Writing Peer Review Reports
   Guidance for Writing a Letter of Comments
   Guidance for Writing Letters on Monitoring Actions by Outside Parties
   On-Site Peer Reviews for Firms That Perform Audits
   On-Site Peer Review Engagement Checklists
   Engagement Checklist Supplements
   On-Site Peer Review Engagement Checklist Summaries
   Off-Site Peer Reviews for Firms That Perform No Audits
   Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program
   Guidance on Performing Inspections
   Consulting Review Program Guidelines
   Reviews of Quality Control Materials

How to Use This Volume . . .

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

The major divisions are subdivided into sections, each with its own section number. Where possible, each paragraph within a subdivision is decimally numbered. For example, PRP section 2000.01 refers to the first paragraph of section 2000, “Information About the Administration of the AICPA Peer Review Program.” Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.
PRP Section 1000

INTRODUCTION

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

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

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

a. Reviewers carrying out peer reviews of firms enrolled in the AICPA peer review program and members of the private companies practice section of the AICPA division for CPA firms.

b. State societies that participate in the administration of the reviews of such firms.

c. Associations of CPA firms that assist their members in arranging and carrying out peer reviews.

d. The AICPA Peer Review Division itself.

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

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

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

a. Comments and suggestions from individuals or groups in the program.

b. Needs identified by the AICPA Peer Review Board.

c. Issuance of new official pronouncements by the Financial Accounting Standards Board, the AICPA Auditing Standards Board, and other senior AICPA committees.

.07 Comments and suggestions should be addressed to:

Peer Review Division
AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881
PRP Section 2000

INFORMATION ABOUT THE ADMINISTRATION OF THE AICPA PEER REVIEW PROGRAM

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PRP Section 2000

Information About the Administration of the AICPA Peer Review Program

General

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

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

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

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

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

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

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

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

.08 Whether or not a firm has an accounting or auditing practice, it should enroll in—
a. The AICPA peer review program; or

b. Private companies practice section and/or SEC practice section of the AICPA division for CPA firms.

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

.10 A firm may join the AICPA peer review program by completing and submitting a “Peer Review Program Enrollment Form” to the AICPA Peer Review Division at Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. Peer review program enrollment forms can be obtained from the AICPA (201/938-3022) or participating state CPA societies. In order to enroll in the AICPA peer review program, at least one owner of the firm must be a member of the AICPA.

.11 A firm may join the Private Companies Practice Section by completing and submitting a “Division for CPA Firms’ Membership Application” to the AICPA Division for CPA Firms at 1211 Avenue of the Americas, New York, NY 10036-8775. Applications for the Division for CPA Firms can also be obtained from the AICPA (212/596-6141) or participating state CPA societies.

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

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

Timing of Reviews

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

a. If a firm was a member of the SEC practice section prior to enrolling in the AICPA peer review program or the private companies practice section and did not have a review under that program, its initial review must commence by the date set under the SEC practice section or ninety days after enrolling in the AICPA peer review program or the private companies practice section, whichever is later.

b. If the firm has undergone a peer review under the auspices of the SEC Practice Section, it may defer its next review until three years and six months after the end of the period covered by the previous peer review.

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

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

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

PRP § 2000.09
.18 A firm may find that it cannot have its peer review by the date assigned. In these circumstances, the firm should submit a letter to the state CPA society administering the firm’s review prior to the due date of the review. Ordinarily, that letter should be submitted at least sixty days prior to the due date and should cite the reasons why the firm cannot have the review and should offer an alternative date for the review. Extensions will be hard to get since a peer review focuses on the quality of a firm’s engagements—if a firm is doing quality work, it should have no problem with a peer review. And if it’s not, it’s better to find out sooner, not later.

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

Sources of Reviewers

.20 A peer review may be performed by—

a. A team appointed by a state CPA society participating in the peer review program (a committee-appointed review team or “CART”).

b. A team formed by a firm engaged by the firm under review (a firm-on-firm review).

c. A team formed by an association of CPA firms that is authorized to form such teams (an association review).

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

a. A team captain must initially attend an AICPA reviewers’ course on how to conduct a review under the AICPA practice-monitoring programs or a state CPA society course on how to conduct a review that has been approved by the AICPA Peer Review Board.

b. Thereafter, a team captain must have completed, during the five-year period prior to the commencement of a review, an AICPA or other approved introductory course on how to conduct a review or an advanced reviewers’ training course for experienced team captains, such as the AICPA’s course “Advanced Training Course for Reviewers: Current Issues in Practice Monitoring.” Individuals attending the advanced course should have attended an introductory course and performed at least one review as a team captain.

c. A reviewer conducting an off-site review should attend an approved introductory course on how to conduct a review or the off-site course entitled “How to Perform and Report on Off-Site Practice-Monitoring Program Reviews”. These courses fulfill the initial and continuing education requirements for off-site reviewers. (An off-site course does not fulfill the initial or continuing education requirements for on-site review team captains.)

Committee-Appointed Review Teams

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

Firm Reviews

.23 Firms participating in the AICPA practice-monitoring program may indicate their willingness to perform peer reviews of other firms by completing a reviewing firm interest form. That form includes, among other things, the locations of the offices of the firm that would be interested in conducting peer reviews (see Exhibit 5).
The information submitted will be included in a master reviewing firm data bank maintained by the AICPA and will be available to participating state CPA societies. Upon request, firms may obtain a listing of the firms located in a particular geographic area that are included in the data bank. The inclusion of a name on a listing does not constitute an endorsement of the listed firm or a team selected therefrom. After a team is formed by a firm engaged to perform a review, the arrangements will be reviewed by the state CPA society administering the review.

Associations of CPA Firms

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

Review Team Working Papers

General

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

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

Submission of Working Papers

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

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

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

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

a. The delay arises from an unresolved problem or disagreement in the review, an attempt should be made to resolve the matter.

b. The delay arises from a failure to perform the peer review in a timely, professional manner, the applicable peer review committee should decide whether to ask the AICPA Peer Review Board to suspend the individual’s right to perform peer reviews at least until the review is completed in a professional manner.

c. The delay arises from a failure by the reviewed firm to cooperate with the reviewer, the state CPA society’s peer review committee should decide at its next meeting whether to refer the matter to the

PRP § 2000.24
AICPA Peer Review Board; in these instances, the AICPA Peer Review Board will decide whether to begin taking actions leading to the termination of the firm’s enrollment or participation in the AICPA peer review program.

Working Paper Retention Policies

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

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

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

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

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

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

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

Submission of Peer Review Documents

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

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

.39 The AICPA Peer Review Board has adopted resolutions (see Exhibits 7 through 9) that provide procedures for dropping or terminating a firm’s enrollment or participation in the peer review program for failure to file with the state CPA society administering the firm’s review information concerning the arrangements for a mandatory
review, including providing the reviewer with information to plan and perform the review or submitting selected financial statements and accountant's reports along with specified information and representations about the engagements; to have a review by the required date; to file the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments or to cooperate with the state CPA society administering the firm's review, including completion of required corrective or monitoring actions.

**Fees and Expenses**

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

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

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

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

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

a. Should not be mailed to a reviewed firm until at least 90 days after the firm has been billed for the services.

b. Should indicate that the administering state CPA society's peer review committee will be asked to review the situation, including the reasons for the nonpayment, and decide whether to recommend that the AICPA Peer Review Board drop the firm's enrollment or participation in the peer review program due to this failure pursuant to the established procedures.

c. Should indicate that the reviewed firm has 30 days from the date of the notice in which to pay the unpaid fees and expenses.

d. Should include a copy of the resolution in Exhibit 10.

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

**Resignations**

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

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

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

Private Companies Practice Section

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

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

See Exhibit 12 for a copy of the resolution adopted by the Private Companies Practice Executive Committee.
## Exhibit 1

### Entities Administering the AICPA Peer Review Program

<table>
<thead>
<tr>
<th>State Where Main Office of Firm is Located</th>
<th>Name of Entity Administering AICPA Peer Review Program</th>
<th>Telephone No.</th>
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<tbody>
<tr>
<td>Alabama</td>
<td>Alabama Society of CPAs</td>
<td>205/834-7650</td>
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<td>Alaska</td>
<td>California Society of CPAs</td>
<td>415/802-2500</td>
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<td>501/664-8739</td>
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<td>California Society of CPAs</td>
<td>415/802-2600</td>
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<tr>
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<td>Colorado Society of CPAs</td>
<td>303/773-2877</td>
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<td>203/525-1153</td>
</tr>
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<td>Delaware</td>
<td>Pennsylvania Institute of CPAs</td>
<td>215/735-2635</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>Virginia Society of CPAs</td>
<td>804/270-5344</td>
</tr>
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<td>Florida Institute of CPAs</td>
<td>904/224-2727</td>
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<td>404/231-8676</td>
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<td>503/641-7200</td>
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<td>Maine</td>
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<td>603/623-3513</td>
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<td>Maryland</td>
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<td>503/641-7200</td>
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<tr>
<td>Pennsylvania</td>
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<td>215/735-2635</td>
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<td>Puerto Rico</td>
<td>Colegio de Contadores Publicos Autorizados</td>
<td>809/745-1950</td>
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<td>Rhode Island</td>
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<td>Wyoming</td>
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<td>702/826-6800</td>
</tr>
</tbody>
</table>

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

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

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

NOW, THEREFORE, BE IT RESOLVED: That a firm that has indicated it does not perform any audit, review, or compilation services will be notified by the AICPA Peer Review Division when it has failed to annually confirm to the AICPA or an administering state CPA society that the firm still does not perform any audit, review or compilation services, even after three requests and that, as a result, the firm has been assigned a due date for review within twelve months from the date of the notification, since it is assumed by the non-response that the firm does perform one or more of these services.
Exhibit 3

AICPA PEER REVIEW BOARD RESOLUTION

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

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

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

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AICPA

REVIEWER RESUME FORM

1. Applicant's Name
   Mr. □ Ms. □
   ____________________________ ____________________________
   FIRST         MI         LAST

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

3. Firm or Organization
   ____________________________ ____________________________

4. Mailing Address
   ____________________________ ____________________________
   CITY  ST  ZIP  Ext.  Ext.

5. Business Telephone Number  ____________________________
   Facsimile Number  ____________________________
   Ext.  Ext.

6. Hourly billing rate $ ____________________________

7. Firm's Federal I.D. Number ____________________________

8. Association(s) to which your firm belongs [use code on page 5 or mark 00 if "None" or 99 for another association which has not been listed]
   If you marked 99, please indicate the name of the association.
   ____________________________ ____________________________

9. Total number of professionals, including partners, proprietors and shareholders (for this purpose professionals are all CPAs and other individuals expected to seek that status)
   □ A One   □ C 6 to 10   □ E 20 to 49   □ G 100 or more
   □ B 2 to 5   □ D 11 to 19   □ F 50 to 99

10. Are you currently practicing at a supervisory level in the accounting and auditing function of your firm?
    □ Yes  □ No  (If no, please skip to Question 15.)

11. Are you currently practicing as (please check one)
    □ Owner  □ Manager or equivalent supervisory position
    □ Senior or other staff accountant

12. Are you currently performing auditing engagements? □ Yes  □ No

13. How many years experience do you have in public practice in the accounting and auditing function? ____________________________
### QUESTIONS FOR ALL APPLICANTS

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<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
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<tr>
<td>14.</td>
<td>Do you possess a current license to practice as a certified public accountant?</td>
<td>□</td>
<td>□</td>
</tr>
<tr>
<td>15.</td>
<td>Have you attended an on-site reviewers' training course on conducting peer or quality reviews?</td>
<td>□</td>
<td>□</td>
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</table>

If yes, please indicate the name of the last review course attended using the codes on page 5 or 99 for a course which has not been listed, the date attended, and the location of the course.

- **Course Code**
- **Date Attended**
- **City**
- **State**

If you marked 99 for the course code, please indicate the name and author of the course attended.

- **Name**
- **Author**

<table>
<thead>
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<th>No.</th>
<th>Question</th>
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<th>No</th>
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</thead>
<tbody>
<tr>
<td>16.</td>
<td>Have you attended a reviewers' training course on conducting off-site peer or quality reviews?</td>
<td>□</td>
<td>□</td>
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</tbody>
</table>

If yes, please indicate the name of the last review course attended using the codes on page 5 or 99 for a course which has not been listed, the date attended, and the location of the course.

- **Course Code**
- **Date Attended**
- **City**
- **State**

If you marked 99 for the course code, please indicate the name and author of the course attended.

- **Name**
- **Author**

17. Are you willing to serve on an on-site committee-appointed review team?  □   □

18. Are you willing to perform off-site reviews of compilation and review reports? □   □

19. Do you own or have access to an up-to-date:

   a. **SECPS Reference Manual** □   □
   b. **PCPS Reference Manual** □   □
   c. Division for CPA Firm's Peer Review Manual □   □
   d. **Quality Review Program Manual** (effective for reviews performed before April 3, 1995) □   □

20. Do you plan to buy or will you have access to the new AICPA Peer Review Program Manual, which is effective for peer reviews of firms in the PCPS or the AICPA Peer Review Program performed on or after April 3, 1995? □   □
### QUESTIONS FOR ALL APPLICANTS

21. Please indicate on page 4 all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer.

* * * * * * *

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

**SIGNATURE:** ___________________________ **DATE:** ___________________________

---

AICPA Peer Review Program Manual

PRP § 2000.53
Information About the Administration of the AICPA Peer Review Program

Exhibit 4—Continued

AREAS OF EXPERIENCE
Please indicate all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer, including practice area 9 if you are currently active in auditing.

PRACTICE AREAS

☐ 1 SEC Rules and Regulations
☐ 2 Reviews and Compilations
☐ 3 Examinations of Prospective Financial Information
☐ 4 Audits of Personal Financial Statements
☐ 5 Audits Under Government Auditing Standards ("Yellow Book")
☐ 6 Audits of Federal Financial Assistance Programs
☐ 7 Audits of Financial Institutions
☐ 8 Audits of REA Borrowers
☐ 9 Other Audits
☐ 10 Audits of Employee Benefit Plans

INDUSTRIES

☐ 105 Advertising
☐ 110 Agricultural, Livestock, Forestry & Fishing
☐ 115 Airlines
☐ 120 Auto Dealerships
☐ 125 Banking
☐ 130 Broadcasting and Entertainment
☐ 135 Brokers and Dealers in Securities
☐ 140 Brokers and Dealers in Commodities
☐ 145 Casinos
☐ 150 Colleges and Universities
☐ 155 Common Interest Realty Associations
☐ 160 Computer Software Development and Sales
☐ 165 Construction Contractors
☐ 170 Continuing Care Retirement Communities
☐ 175 Credit Unions
☐ 180 Extractive Industries—Oil and Gas
☐ 185 Extractive Industries—Mining
☐ 190 Finance Companies
☐ 195 Franchisors
☐ 200 Fire and Casualty Insurance Companies
☐ 205 Government Contractors
☐ 210 Health Maintenance Organizations
☐ 215 Hospitals and Nursing Homes
☐ 220 Hotels and Restaurants
☐ 222 HUD
☐ 225 Insurance Agents and Brokers
☐ 230 Investment Companies and Mutual Funds
☐ 235 Leasing Companies
☐ 240 Life Insurance Companies
☐ 245 Manufacturing
☐ 250 Mortgage Banking
☐ 255 Motor Carriers
☐ 260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)
☐ 265 Employee Benefit Plans (including ERISA audits)
☐ 268 Personal Financial Statements
☐ 270 Professional Services (Doctors, Lawyers, Architects, etc.)
☐ 275 Publishing
☐ 280 Real Estate Brokerage
☐ 285 Real Estate Development
☐ 290 Real Estate Management
☐ 295 Real Estate Investment Trusts
☐ 300 Reinsurance Companies
☐ 305 Retail Trade
☐ 310 Savings and Loan Associations
☐ 315 Small Loan Companies
☐ 320 School Districts
☐ 325 State and Local Government
☐ 330 Telephone Companies
☐ 335 Utilities
☐ 340 Wholesale Distributors
☐ 999 Other (describe) ___________________________

PLEASE RETURN THE COMPLETED FORM TO:
American Institute of CPAs
Peer Review Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

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ASSOCIATION CODES

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<tr>
<th>Code</th>
<th>Association or Firm Name</th>
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<tr>
<td>01</td>
<td>AFAI Accounting Firms Associated Inc.</td>
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<tr>
<td>02</td>
<td>AGI Accounting Group International</td>
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<td>04</td>
<td>TAG TAG International</td>
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<td>05</td>
<td>AAFI Associated Accounting Firms International</td>
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<td>06</td>
<td>ARAF Associated Regional Accounting Firms</td>
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<td>07</td>
<td>ABCF National Association of Black CPA Firms</td>
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<td>08</td>
<td>CALGAF California Group of Accounting Firms</td>
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<td>10</td>
<td>CACF Continental Association of CPA Firms, Inc.</td>
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<td>11</td>
<td>CPAA CPA Associates International, Inc.</td>
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<td>CPAN CPA Network</td>
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<td>CPAMS CPA Management Systems, Inc.</td>
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<td>IGAF The International Group of Accounting Firms</td>
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<td>HLB HLB USA, Inc.</td>
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<tr>
<td>38</td>
<td>HIL Horwath International</td>
</tr>
<tr>
<td>39</td>
<td>NI Nexia International</td>
</tr>
<tr>
<td>40</td>
<td>IAPA International Association of Practicing Accountants</td>
</tr>
<tr>
<td>41</td>
<td>JHI Jeffreys Henry International</td>
</tr>
<tr>
<td>42</td>
<td>KRE Kreston International</td>
</tr>
<tr>
<td>43</td>
<td>MCN The McGladrey Network</td>
</tr>
<tr>
<td>44</td>
<td>APA The Alliance of Practicing CPAs</td>
</tr>
</tbody>
</table>

PRACTICE-MONITORING PROGRAM TRAINING COURSES

<table>
<thead>
<tr>
<th>Code</th>
<th>Course Developer</th>
<th>Course Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>01*</td>
<td>AICPA</td>
<td>How to Conduct a Review Under the AICPA Practice-Monitoring Programs (first offered in 1990 and after)</td>
</tr>
<tr>
<td>03</td>
<td>AICPA</td>
<td>How to Conduct a Peer Review/Guide for Conducting Peer Reviews (last offered in 1989)</td>
</tr>
<tr>
<td>04</td>
<td>AICPA</td>
<td>How to Conduct a Quality Review (offered in 1989 only)</td>
</tr>
<tr>
<td>05</td>
<td>Florida Institute of CPAs</td>
<td>Quality Review: How to Conduct One (offered in Florida only)</td>
</tr>
<tr>
<td>06</td>
<td>AICPA</td>
<td>How to Perform and Report on Off-Site Practice-Monitoring Program Reviews (first offered in 1993 and thereafter)</td>
</tr>
<tr>
<td>99</td>
<td></td>
<td>Other Reviewer Training Course (8 hours or more)</td>
</tr>
</tbody>
</table>

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

**The name of this course will change in 1995 to “Advanced Training Course for Reviewers: Current Issues in Practice Monitoring.”
Exhibit 5

REVIEWING FIRM INTEREST FORM

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

1. Firm Number  Branch No.

2. Firm Name

3. Branch Address

4. Person to contact at the branch regarding reviews:
   Mr.  Ms.  
   Telephone Number  Ext.

5. Is the branch willing to perform peer reviews of firms in the:
   a. Private Companies Practice Section  Yes  No
   b. SEC Practice Section  Yes  No
   c. Peer Review Program  Yes  No

6. Signature  Date

Please return this form to:
American Institute of Certified Public Accountants
Peer Review Division
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Copyright © 1995, American Institute of Certified Public Accountants, Inc.
.01 A reviewer has a responsibility to perform a review in a timely, professional manner. This relates not only to the initial submission to the administering entity of the report, letter of comments and working papers on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving questions raised by the report acceptance body (RAB) or a technical reviewer.

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

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

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

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

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

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

.07 If a reviewer is scheduled to perform a review after he or she has filed an appeal, but before the AICPA Peer Review Board has considered the appeal, then that review ordinarily should be overseen by a member of the administering entity’s peer review committee at the reviewer’s expense. If the reviewer has completed the fieldwork on one or more reviews prior to the imposition of the corrective or monitoring action, then the AICPA Peer Review Board will consider what action, if any, to take regarding those reviews, based on the facts and circumstances.
Exhibit 7

AICPA PEER REVIEW BOARD RESOLUTION

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED: That a firm’s enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Division notifies the firm by certified mail that the firm has failed (1) to pay fees related to the administration of the program that have been authorized by the governing body of a participating state society, (2) to file requested information with the state CPA society administering the firm’s review concerning the arrangements for a mandatory peer review, or (3) to have a peer review by the required date, if such failure(s) is not sooner corrected; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.
Exhibit 8

AICPA PEER REVIEW BOARD

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED: That a firm’s enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that the firm has (1) failed to provide the reviewer with the information necessary to plan and perform the firm’s on-site peer review or (2) failed to submit the selected financial statements and accountant’s report to the reviewer or state CPA society administering the review along with specified background information and representations about each engagement, if such information is not sooner provided; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.
Exhibit 9

AICPA PEER REVIEW BOARD RESOLUTION

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

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

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

BE IT FURTHER RESOLVED: That, pursuant to paragraph 75 of the Standards for Performing and Reporting on Peer Reviews, the fact that a firm’s enrollment in the AICPA peer review program has been so terminated shall be reported in an AICPA membership periodical.
Exhibit 10

AICPA PEER REVIEW BOARD RESOLUTION

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

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

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

NOW, THEREFORE, BE IT RESOLVED: That a firm’s enrollment or participation in the AICPA peer review program will be dropped by the AICPA Peer Review Board, without a hearing for disciplinary purposes, thirty days after the AICPA Peer Review Division notifies the firm by certified mail that the firm has failed to pay in full the fees and expenses of the review team formed by a participating state CPA society, and such failure is not sooner corrected or explained to the satisfaction of the AICPA Peer Review Board; however, the Board may at its discretion decide to hold such a hearing and, whether a hearing is held or not, a firm enrolled in the AICPA peer review program will have the right to appeal to the AICPA Joint Trial Board and, under the organizational structure and functions document of the private companies practice section, a member of the private companies practice section will have a right to appeal to the Private Companies Practice Executive Committee.
Exhibit 11

AICPA PEER REVIEW BOARD RESOLUTION

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

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

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

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

BE IT FURTHER RESOLVED: That, pursuant to paragraph 75 of the Standards for Performing and Reporting on Peer Reviews, the fact that a firm’s enrollment in the AICPA peer review program has been so terminated shall be reported in an AICPA membership periodical.
Exhibit 12
PRIVATE COMPANIES PRACTICE EXECUTIVE COMMITTEE RESOLUTION

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

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

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

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

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

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

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

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

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

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

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Exhibit 13

SAMPLE ENGAGEMENT LETTER

[Letterhead of Administering State CPA Society for CART Reviews]

(Date)

(Managing Owner’s Name)

(Firm Name)

Re: Review Number__________________________

Dear (Managing Owner’s Name):

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

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

Scope of the Review

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

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

Liability and Subpoena

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

Timing of Review and Fees

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

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

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

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

Sincerely,

.................................................................................................................................

.................................................................................................................................

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

_________________________________________  ___________________________
Firm To Be Reviewed  Date

_________________________________________
By

_________________________________________
Position

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

² State societies may wish to revise this paragraph.

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Attachment to Engagement Letter Dated______________

REVIEW TEAM CAPTAIN

Name: 
Firm Name: 
Address: 

Telephone Number: 
Position: 

Billing Rate on the Review: $ _______/hour

Years of Accounting and Auditing Experience: 
Areas of Experience: 

Size of Reviewer’s Firm: 
Date of Firm’s Last Review (if any): 

Practice Monitoring Program(s) to Which the Reviewer’s Firm Currently Belongs:
REVIEW TEAM MEMBER *

Name: 
Firm Name: 
Address: 

Telephone Number: 
Position: 

Billing Rate on the Review: $ /hour

Years of Accounting and Auditing Experience:
Areas of Experience:

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

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

* Print out this information for each review team member.

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PRP Section 3000

GUIDANCE FOR PERFORMING AND REPORTING ON PEER REVIEWS

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3200  Peer Review Standards Interpretations
3300  Guidance for Writing Peer Review Reports
3400  Guidance for Writing A Letter of Comments
3500  Guidance for Writing Letters on Monitoring Actions by Outside Parties
PRP Section 3100
Standards for Performing and Reporting on Peer Reviews
Effective April 3, 1995, as Amended

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

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

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

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

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

Contents

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3100 Standards for Performing and Reporting on Peer Reviews

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General Considerations ...................................... .07-.14
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Independence ............................................... .10

AICPA Peer Review Program Manual

PRP § 3100
Introduction

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

.02 Participants in the peer review program need to—

a. Understand what is necessary for quality practice.

b. Establish appropriate quality control policies and procedures.

c. Have an independent review of their accounting and auditing practices at least every three years.

d. Take remedial, corrective actions as needed.

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

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

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

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

General Considerations

AICPA Peer Review Program Manual

PRP § 3100.06
Enrollment Requirements

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

Confidentiality

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

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

Independence

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

Conflict of Interest

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

Competence

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

Due Professional Care

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

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

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

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

Organization of the Review Team

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

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

Qualifications for Service as a Reviewer

General

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

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

On-Site Peer Reviews

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

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

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

5 The Peer Review Board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. This standard is not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise.
.19 An individual who serves as the team captain for two successive reviews of the same firm may not serve in that capacity for the firm's next peer review.

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

Off-Site Peer Reviews

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

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

Performing On-Site Peer Reviews

Objectives

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

a. The reviewed firm's system of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA (see Statement on Quality Control Standards No. 1, System of Quality Control for a CPA Firm).  

b. The reviewed firm's quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards.

c. If applicable, the reviewed firm was complying with the membership requirements of the private companies practice section of the AICPA Division for CPA Firms in all material respects. (See exhibit 1 for a description of the membership requirements.)

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

Basic Requirements

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

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6 See note 5.
.25 Statement on Quality Control Standards No. 1 requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. It states that a firm shall consider each of the following elements of quality control, to the extent applicable to its practice, in establishing its quality control policies and procedures: independence, assigning personnel to engagements, consultation, supervision, hiring, professional development, advancement, acceptance and continuance of clients, and inspection. Accordingly, the review team should obtain a general understanding of the reviewed firm's quality control policies and procedures with respect to each of those nine elements of quality control. Ordinarily, this understanding can be obtained from reading the reviewed firm's responses to a questionnaire developed by the AICPA Peer Review Board. The review team should also perform appropriate compliance tests related to broad functions.

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

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

a. Review of selected engagements, including the relevant working paper files and reports, with fiscal years ending during the review year—unless a more recent report has been issued—constituting a reasonable cross section of the reviewed firm's accounting and auditing practice. If the reviewer notes significant deficiencies in the performance of such engagements or the reporting thereon, he or she should identify actions the firm should consider taking to provide the firm with reasonable assurance that such deficiencies will not recur. In that connection, it might be necessary for the reviewer to expand compliance tests of broad functions to identify such actions. In addition, the reviewed firm shall consider whether it is required to take additional actions under relevant professional standards whenever the review team believes that the firm’s report on previously issued financial statements may be inappropriate or that the firm’s work may not support the report issued. In such cases, the reviewed firm shall provide the review team with its conclusions in writing (generally on a "Matter for Further Consideration" form prepared by the reviewer).

b. Attendance at an exit conference by senior members of the reviewed firm and at least the team captain to discuss the review team’s findings and recommendations and the type of report it will issue.

c. Preparation of a written report on the results of the review and, if applicable, a letter of comments (see "Reporting on Reviews").

d. Preparation by the reviewed firm, if applicable, of a written response to the letter of comments outlining the actions the firm plans to take with respect to the recommendations made by the review team (see "Reporting on Reviews").

e. Appropriate consideration of the results of the review by a duly constituted committee of a participating state CPA society. Such consideration should include, where applicable, an evaluation of the adequacy of
the corrective actions the firm has represented it will take and a determination on whether other remedial, corrective actions and/or monitoring of the firm’s action plan should be required (see “Acceptance of Reviews”).

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

Other Requirements

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

Scope of the Review

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

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

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

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

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

.35 In reviewing a practice office, the accounting and auditing practice to be reviewed includes reports issued for or to another office of the reviewed firm, a correspondent firm, or an affiliated firm. For those situations in which engagements selected in the practice office being reviewed include use of the work of another office,
correspondent, or affiliate, the review team may limit its review to portions of the engagements performed by the practice office being reviewed, but should evaluate the appropriateness of the instructions issued by the reviewed office and the adequacy of the procedures followed to comply with professional standards.

**Study and Evaluation of Quality Controls**

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

**Extent of Compliance Tests**

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

a. Review of selected engagements, including working paper files and reports, to evaluate their conformity with professional standards and compliance with relevant firm quality control policies and procedures in their conduct.

b. Interviews with firm professional personnel at various levels and, if applicable, other persons responsible for a function or activity, to assess their understanding of and compliance with the firm’s quality control policies and procedures.

c. Obtaining other evidential matter as appropriate, for example, by review of selected administrative or personnel files, correspondence files documenting consultations on technical or ethical questions, files evidencing compliance with continuing professional education requirements, and the firm’s library.

**Selection of Offices**

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

a. Number, size, and geographic distribution of offices

b. The degree of centralization of accounting and auditing practice control and supervision

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\(^8\) AICPA, Professional Standards, vol. 2, QC sec. 90.
c. The review team’s evaluation, where applicable, of the firm’s inspection program

d. Recently merged or recently opened offices

e. The significance of industry concentrations (including concentrations of engagements in high-risk industries) and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices

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

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

**Selection of Engagements**

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

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

a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities, and employee benefit plans

b. Engagements in other specialized industries

c. Engagements that are large, complex, or high-risk or that are the reviewed firm’s initial audits of clients

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

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

a. Adequate consideration has been given to the key audit area approach to engagement review. (This is discussed more fully in the AICPA programs and checklists.)

b. Too much weight is being given to the desirability of reviewing work performed by all or most supervisory personnel.

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

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

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

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

a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles (or, if applicable, an other comprehensive basis of accounting).

b. The firm did not have a reasonable basis under applicable professional standards for the report issued.

c. The documentation on the engagement did not support the report issued.

d. The firm did not comply with its quality control policies and procedures in all material respects.

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

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

Exit Conference

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

Performing Off-Site Peer Reviews

Objectives

.49 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements and related accountant’s report on the review and compilation

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

Basic Requirements

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

a. Select one review or compilation engagement involving a report on a complete set of financial statements as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting, for each owner of the firm responsible for the issuance of such reports. However, at least two engagements must be selected for the firm.

b. In selecting engagements for review, include both review and compilation engagements, if both levels of service are provided. Also, attempt to include clients operating in different industries and engagements involving prospective financial statements as well as those involving historical financial statements.

c. In addition to the selection made in a above, select, where applicable, one set of financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting and the related accountant’s compilation report. However, if the firm’s accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, the firm must submit the financial statements and related accountant’s reports for two such engagements.

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

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

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

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

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

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

**Reporting on Reviews**

**General**

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

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

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

.59 The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, its clients, or others until it has been advised that the report has been accepted by the state CPA society administering the review as meeting the requirements of the AICPA peer review program. Neither the state CPA society nor the AICPA shall make the results of the review available to the public, but may disclose on request the following information:

a. The firm’s name and address

b. The firm’s participation in the peer review program

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

d. If applicable, the termination of the firm from the program

Reports on On-Site Peer Reviews

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

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

Reports on Off-Site Peer Reviews

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

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

Letters of Comments

.64 A letter of comments is required to be issued in connection with an on-site peer review when there are matters that resulted in modification to the standard form of report or when there are matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, or when a private companies practice section member firm has failed to comply with one or more of the section’s membership requirements. Such a letter should provide reasonably detailed recommendations for remedial, corrective actions by the reviewed firm so that the state CPA society administering the review can evaluate whether the firm’s response to the findings noted in the review is a positive one consistent with the objectives of the peer review program and whether the actions taken or planned by the firm appear appropriate in the circumstances.

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

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

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

Acceptance of Reviews

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

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

a. The review has been performed in accordance with these standards and related guidance materials.

b. The report, letter of comments, if any, and the response thereto are in accordance with these standards and related guidance material.

c. It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions are requiring certain individuals to obtain specified types and amounts of continuing professional education, requiring the firm to carry out a more comprehensive inspection program, requiring it to engage another CPA to perform preissuance reviews of financial statements and reports, or to attempt to strengthen its professional staff.

d. It should monitor the corrective actions implemented by the reviewed firm. Examples of monitoring procedures are requiring the firm to submit information concerning continuing professional education obtained by firm personnel, inspection reports, or reports by another CPA engaged to perform preissuance reviews of financial statements and reports. Revisits by team captains and accelerated peer reviews are other examples of monitoring procedures.

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

.72 In the rare event of a disagreement between the committee and the review team or the reviewed firm that cannot be resolved by ordinary good-faith efforts, the committee may request that the matter be referred to the AICPA Peer Review Board for final resolution. In these circumstances, the AICPA Peer Review Board may consult with representatives of AICPA technical or ethical committees or with appropriate AICPA staff.

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

.74 If a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the AICPA Peer Review Board may take actions, pursuant to due process procedures that it has established, leading to the termination of the firm's enrollment or participation in the AICPA peer review program.\(^1\)

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

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

Qualifications of Committee Members

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

\(^1\) Appendix A to the organizational structure and functions document of the private companies practice section (see PCPS Reference Manual, section 1000) contains provisions for automatically dropping or terminating the membership of firms in the private companies practice section that fail to meet certain requirements related to their peer review.

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Additional Requirements for Members of the Private Companies Practice Section

1. Effective April 3, 1995, a member of the private companies practice section of the AICPA Division for CPA Firms shall comply with the section's requirement for mandatory peer review by—
   a. Having a review administered under the AICPA peer review program or, if it is or becomes a member of the SEC practice section of the AICPA Division for CPA Firms, a review administered by that section.
   b. Complying with all of the standards and requirements of the applicable practice-monitoring program and with any additional requirements as may be established or modified from time to time by the Private Companies Practice Executive Committee.

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

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

* This exhibit includes summarized information from Section 1000 of the PCPS Reference Manual entitled "Organizational Structure and Functions of the Private Companies Practice Section."
responsible for administering the firm's review, a memorandum indicating that they have been accepted with the understanding that the firm will agree to take certain actions shall also be placed in the public file. The letter setting forth those actions and the firm's agreement to undertake them shall be placed in the public file upon receipt.

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

Independence Requirements

Reciprocal Reviews

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

Relationships With Clients of the Reviewed Firm

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

Relationships With the Reviewed Firm

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

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

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

Limitation on Scope of Review

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

The Nature and Significance of Engagement Deficiencies

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

   a. The failure related to a specialized industry practice and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.

   b. The failure related to a matter covered by a recent professional pronouncement and the firm had failed to identify through professional development programs or appropriate supervision the relevance of that pronouncement to its practice.

   c. The failure should have been detected if the firm’s quality control policies and procedures had been followed.

   d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the state CPA society administering the review before reaching such a conclusion.

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

PRP § 3100.80

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The Pattern and Pervasiveness of Engagement Deficiencies

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

Design Deficiencies

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

Noncompliance With Private Companies Practice Section Membership Requirements

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

Forming Conclusions

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

Standard Form for an Unqualified Report on an On-Site Peer Review

Firm in the AICPA Peer Review Program *

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

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

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

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

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

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

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

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Firm in the Private Companies Practice Section *

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

August 31, 19XX

To the Owners
Smith, Jones & Co.

or

To John R. Smith, CPA

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

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

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

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

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

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

Report Qualified for Design Deficiency
[Separate paragraph after the standard first two paragraphs]

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

[Opinion paragraph]

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

Report Qualified for Noncompliance With Quality Control Policies and Procedures
[Separate paragraph after the standard first two paragraphs]

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

[Opinion paragraph]

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

Adverse Report
[Separate paragraph after the standard first two paragraphs]

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

[Opinion paragraph]

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

PRP § 3100.82
Standards for Performing and Reporting on Peer Reviews

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

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

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

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

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

Guidelines

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

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

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

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

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

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

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

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

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

Matters That Resulted in a Qualified Report *

Supervision

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

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

Matters That Did Not Result in a Qualified Report *

Supervision*

Finding—The firm’s quality control policies and procedures require the completion of a financial reporting and disclosure checklist on each financial statement engagement. Our review disclosed the firm had not complied with

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

** These phrases should be used only if the reviewed firm is a member of the private companies practice section.
this policy on all of the engagements reviewed. In each case where a checklist was not completed, we also found certain financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional standards.

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

Consultation

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

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

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

[Same signature as on the report on the on-site peer review]
.84 Appendix F

Illustration of a Response by a Reviewed Firm to a Letter of Comments on an On-Site Peer Review

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

Sample Letter of Response

[Addressed to the state CPA society administering the review]

September 15, 19XX

Ladies and Gentlemen:

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

Matters That Resulted in a Qualified Report *

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

Matters That Did Not Result in a Qualified Report *

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

* This caption should be used only if a qualified or adverse report is being issued, and it should be tailored to fit the circumstances.
Responsibility for Reference Library—The responsibility for keeping the firm's reference library comprehensive and up to date and for advising professional personnel of additions to the library has been assigned to an experienced audit manager. Current editions of industry audit and accounting guides have been ordered.

* * * *

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

Sincerely,

[Name of Firm]
Appendix G

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

Circumstances Calling for a Qualified Report

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

   a. A departure from the measurement or disclosure requirements of generally accepted accounting principles or, where applicable, an other comprehensive basis of accounting, that can have a significant effect on the user’s understanding of the financial information presented and that is not described in the accountant’s report. Examples might include a failure to provide an allowance for doubtful accounts when it is probable that a material amount of accounts receivable is uncollectible; the use of an inappropriate method of revenue recognition; a failure to capitalize financing leases or to make important disclosures about significant leases; a failure to disclose significant related-party transactions; or a failure to disclose key assumptions in a financial forecast.

   b. The issuance of a review report that is misleading in the circumstances. Examples might include a review report on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles; or a review report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting.

   c. The issuance of a compilation report that is misleading in the circumstances. Examples might include a report on compiled financial statements that omit substantially all disclosures required by generally accepted accounting principles that does not clearly indicate the omission in the report; or a compilation report on financial statements prepared on an other comprehensive basis of accounting that does not disclose the basis of accounting in the report or in a note to the financial statements.

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

Circumstances Calling for an Adverse Report

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

3. The reviewer may note other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice. The reviewer should describe these findings in the letter of comments (see appendix J).
Standard Form for an Unqualified Report on an Off-Site Peer Review

Firm in the AICPA Peer Review Program*

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

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

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

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

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

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

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* No copy of this report or any other documents related to this review will be placed in a public file.
† Tailor as appropriate.
‡ The description Reviewer, not Team Captain, should be used in reports on off-site peer reviews.
Firm in the Private Companies Practice Section

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

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Able, CPA

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

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

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

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

John Brown, Reviewer†
[or Name of Reviewing Firm]

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

‡ Tailor as appropriate.

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

Illustrations of Other Types of Reports on an Off-Site Peer Review

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

Qualified Report for Significant Departures From Professional Standards

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

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

[Concluding paragraph]

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

Adverse Report on an Off-Site Peer Review

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

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

[Adverse concluding paragraph]

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

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

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

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

"If the report on the accounting practice is adverse, the report on the firm’s compliance with the membership requirements of the private companies practice section should also be adverse. This can be accomplished by stating in the last sentence of the fourth paragraph that “We(I) also believe the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended June 30, 19XX.”"
for the failure of a significant number of professionals to participate in the required number of hours of qualifying continuing professional education, nothing came to our (my) attention that caused us (me) to believe that the firm did not conform with the membership requirements of the section during the year ended June 30, 19XX, in all material respects.
Appendix J

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

Guidelines

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

2. The letter should be addressed, dated, and signed in the same manner as the report on the off-site peer review, and should include—
   a. A reference to the report on the review, indicating, where applicable, that the report was qualified or adverse.
   b. A description of the purpose of the off-site peer review.
   c. A statement that the review was performed in accordance with standards established by the Peer Review Board of the AICPA.
   d. The findings on the review and related recommendations. (Those findings, if any, that resulted in a qualified or adverse report and those that did not should be separated in this section. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the firm’s previous peer review.)
   e. A statement that the matters discussed in the letter were considered in preparing the report.

3. In addition to matters that resulted in a qualified or adverse report, which must always be included in the letter, the letter of comments should include—
   a. Other departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm in evaluating the quality control policies and procedures over its accounting practice.
   b. Instances in which the firm failed to comply with one or more of the membership requirements of the private companies practice section in all material respects, but the instances are not deemed to be significant enough to qualify the report.
Illustration of a Letter of Comments

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

August 31, 19XX

To the Owners
Able, Baker & Co.

or

To John B. Baker, CPA

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

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

[Following would be a description of—

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

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

William Brown, Reviewer

or

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

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

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

Matters That Resulted in a Qualified or Adverse Report

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

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

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

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

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

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

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

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

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

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

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.
Matters That Did Not Result in a Qualified or Adverse Report *

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

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

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

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

* This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.
Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Off-Site Peer Review

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

Sample Letter of Response

September 15, 19XX

[Addressed to the state CPA society administering the review]

Ladies and Gentlemen:

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

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

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

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

Sincerely,

[Name of Firm]
Guidance for Performing and Reporting on Peer Reviews

AICPA Peer Review Board (1993-1994)
(Formerly the AICPA Quality Review Executive Committee)

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Group Vice President,
Professional

DALE R. ATHERTON,
Vice President,
Peer Review

JANET LUALLEN
Senior Technical Manager,
Peer Review Division

[The next page is 3201.]
PRP Section 3200
Peer Review Standards Interpretations

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

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

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

(issued January 31, 1990, and amended October 17, 1994)

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

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

.03 A review conducted at the reviewer’s office or another agreed-upon location can achieve the objectives of an on-site peer review and can be described as such in the reviewer’s report provided that (1) the reviewed firm is a sole practitioner with four or fewer professional staff; (2) the sole practitioner holds one or more meetings, by telephone or in person, with the reviewer to discuss the firm’s responses to the quality control policies and procedures questionnaire, engagement findings, and the reviewer’s conclusions on the review; and (3) in addition to materials outlined in the “Instructions to Firms Having an On-Site Peer Review” (see PRP section 4100.07), the sole practitioner sends the following materials to the reviewer prior to the review:

(a) All documentation related to the resolution of independence questions (a) identified during the year under review with respect to any audit or accounting client or (b) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period.

AICPA Peer Review Program Manual

PRP § 3200.03
(b) The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the sole practitioner acted as principal auditor or accountant.

(c) The most recent representations received from all professional staff concerning their compliance with applicable independence requirements.

(d) Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client.

(e) A list of relevant technical publications used as research materials, as referred to in question B.4 of the Questionnaire (see PRP sections 4200.02.B.4 and 4300.02.C.7).

(f) A list of audit and accounting materials, if any, identified in response to the questions in the “Supervision” section of the Questionnaire (see PRP section 4200.02.C).

(g) CPE records sufficient to demonstrate compliance by the CPAs in the firm with state and AICPA continuing professional education requirements.

(h) The relevant working paper files and reports on the engagements selected for review.

(i) Any other evidential matter requested by the reviewer.

(j) Documentation of compliance with the membership requirements of the private companies practice section (if applicable).

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

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

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

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

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

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

a. Engagements in which there is a significant public interest, such as publicly held clients, financial and lending institutions, and brokers and dealers in securities.

b. Engagements in other specialized industries.

c. Engagements that are large, complex, or high-risk or that are the reviewed firm’s initial audits of clients.

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

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

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

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

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


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

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

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

.14 Similarly, if a firm is assigned a due date beyond the three-year period for its subsequent review, the requirement that a reviewer's firm must have a review within the previous three years will be waived for a period of time up to the due date assigned for the subsequent review provided that (1) the due date assigned is not beyond three years and six months after the end of the period covered by the previous peer or quality review and (2) the firm's most recent review resulted in an unqualified report or a report not adverse or qualified for significant departures from professional standards on an off-site peer review.

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

AICPA Peer Review Program Manual

PRP § 3200.14
Interpretation No. 5—(Deleted January 25, 1994)

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

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

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

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

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

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

Interpretation No. 8—Reviewer Experience Requirements

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

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

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

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

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

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

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

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

(issued February 6, 1995)

.24 Question: Paragraph 18 of the Standards for Performing and Reporting on Peer Reviews (the Standards), (AICPA Peer Review Program Manual, PRP 3100.18) states that "A team captain must also be associated with a firm that has received an unqualified report on its system of quality control within the previous three years." Paragraph 21 of the Standards (PRP 3100.21) states that off-site reviewers must "also be associated with a firm that has received, within the three previous years, either of the following:

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

If a reviewer is associated with more than one firm, must each of the firms with which the reviewer is associated comply with these requirements?

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

[The next page is 3301.]
# PRP Section 3300

## Guidance for Writing Peer Review Reports

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### Illustrative On-Site Peer Review Reports on Firms in the AICPA Peer Review Program

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AICPA Peer Review Program Manual

PRP § 3300
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General Guidelines for On-Site Peer Review Reports

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

a. An unqualified report

b. A qualified report

c. An adverse report

.02 The report should contain—

a. An indication of the scope of the review, including any limitations thereon.

b. A description of the general characteristics of a system of quality control.

c. A reference to the letter of comments, if the report was qualified or adverse.

d. An opinion on whether the quality control system for the accounting and auditing practice of the reviewed firm met the objectives of quality control standards established by the AICPA, and whether it was complied with during the year reviewed, to provide the firm with reasonable assurance of conforming with professional standards.

e. A description of the reason(s) for any qualification of the opinion.

f. If applicable, an opinion on whether the reviewed firm complied with the membership requirements of the private companies practice section in all material respects.

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

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

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

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

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

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

a. Whether the policies and procedures that constitute the reviewed firm's system of quality control for its accounting and auditing practice met the applicable objectives of quality control standards established by the AICPA to the extent required to provide the firm with reasonable assurance of conforming with professional standards.

b. Whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of conforming with professional standards.

c. If applicable, whether the firm complied with the membership requirements of the private companies practice section in all material respects.

Report Qualified for Design Deficiencies

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

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

a. A reference to the letter of comments such as: "As discussed in our letter of comments under this date, our review disclosed . . ."

b. A description of the deficiency in the design of the firm's system of quality control. (The qualifying paragraph should not discuss engagement deficiencies.)

c. A statement that the firm was not provided with reasonable assurance of conforming with professional standards on accounting and auditing engagements as a result of the design deficiency.

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

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

Report Qualified for Noncompliance With Quality Control Policies and Procedures

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

PRP § 3300.08

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

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

a. A reference to the letter of comments, such as: “As discussed in our letter of comments under this date, our review disclosed . . . .”

b. A description of the quality control policies and procedures that were not followed by professional staff. (The qualifying paragraph should not discuss engagement deficiencies.)

c. A statement that the firm’s policies and procedures were not followed in a manner to provide the firm with reasonable assurance of conforming with professional standards on accounting and auditing engagements.

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

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

Adverse Report

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

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

a. A reference to the letter of comments, such as: “As discussed in our letter of comments under this date, our review disclosed . . . .”

b. A description of the nature and extent of the deficiencies in the reviewed firm’s system of quality control and whether the deficiencies were caused by an inappropriately designed quality control system or noncompliance with the quality control system by professional staff.

c. A description of the engagement deficiencies, such as: “In connection with these deficiencies, we noted several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in complying with the standards for accounting and review services.”

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

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

Scope Limitations

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

a. The financial statements of an engagement selected for review are the subject of litigation or investigation.

b. The client will not permit the working papers for its engagement to be reviewed.

c. During the year under review, a portion of the firm was divested, and the review team is unable to access certain engagements issued before the divestiture.

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

Report Qualified for Noncompliance With Private Companies Practice Section Membership Requirements

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

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

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

.25 If the report is qualified for noncompliance with the membership requirements, but not for a design deficiency in the quality control system or noncompliance with the system, the final sentence of the membership
paragraph should make reference to the letter of comments by adding the phrase "as discussed in our letter of comments under this date" after the words "in all material respects."

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

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

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

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

General Guidelines for Off-Site Peer Review Reports

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

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

.31 The report should contain—

a. An indication that the review was performed in accordance with the standards established by the AICPA.
b. An indication that the reviewed firm has represented that it performed no audits (or reviews) of historical or prospective financial statements during the year under review.
c. A description of the limited scope of the review and a disclaimer of an opinion or any form of assurance about the firm’s quality control policies and procedures for its accounting practice.
d. A reference to the letter of comments, if the report was qualified or adverse.
e. An indication of the reviewer’s conclusion:

(i) As to whether anything came to the reviewer’s attention that caused the reviewer to believe the engagements submitted for review did not conform with professional standards in all material respects; or

(ii) That the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice.
f. A description of the reason(s) for any qualification of the opinion.
g. If applicable, an indication that the firm is a member of the private companies practice section and whether anything came to the reviewer’s attention that caused him or her to conclude that the firm had not complied with the section’s membership requirements in all material respects.
.32 The report on a firm-on-firm review should be issued on the reviewing firm’s letterhead and signed in the reviewing firm’s name. All other reports should be issued on the letterhead of the entity that appointed or formed the review team and should be signed by the reviewer (without reference to the reviewer’s firm).

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

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

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

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

Report Qualified for Significant Departures From Professional Standards

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

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

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

a. A reference to the letter of comments such as: “As discussed in our letter of comments under this date, our review disclosed . . .”

b. A description of the deficiencies that are considered to be significant departures from professional standards.

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

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

Adverse Report

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

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

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

b. A description of the deficiencies which are considered to be significant departures from professional standards.

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

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

Report Qualified for Noncompliance With Private Companies Practice Section Membership Requirements

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

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

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

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

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

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

.51 Refer to § 3300.74 for an illustrative off-site report qualified for significant departures from professional standards and noncompliance with one of the section’s membership requirements.
.52 If a member of the private companies practice section receives an adverse report on an off-site review, the membership paragraph of the report should indicate that the reviewer believes "the firm was not in conformity with the membership requirements of the section during the year ended June 30, 19__, in all material respects because it did not comply with the AICPA quality control standards."

Illustrative On-Site and Off-Site Peer Review Reports

.53 The following paragraphs contain the standard and other illustrative reports. The standard report should be appropriately tailored to fit the circumstances. Following each illustrative report is a critique of "key points" that the reviewer should focus on when preparing a report.
.54 Unqualified Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

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

September 30, 19__

To the Owners
JW & Co.

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

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

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

DR & Company

[for review by a firm]

or

John Doe
Team Captain

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

• This is the standard form for an unqualified on-site peer review of a firm with an accounting and auditing practice that is enrolled in the AICPA peer review program. If the firm did not perform any accounting (or auditing) engagements during the year under review, the report would be tailored to indicate this. See §3300.55 for a tailored report.

• As is customary, the review year ends about three to six months before the review commences. (The review year does not have to be the same as the firm's fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.)

• Since the firm is enrolled in the AICPA peer review program, no copy of this report or any other documents related to the review will be placed in a public file.
.55 Unqualified Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Only Accounting Engagements

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

September 30, 19__

To the Owners
JW & Co.

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

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

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

DR & Company
[for review by a firm]

or

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

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

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

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

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

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

BD & Company [for review by a firm]

or

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

AICPA Peer Review Program Manual

PRP § 3300.56
Key points:

- This report is qualified for a design deficiency in the reviewed firm’s quality control system for supervision. Therefore, it includes the reasons for the qualification without referring to the underlying engagement deficiencies. The qualifying paragraph of the report makes reference to the letter of comments.

- The opinion of the reviewer is included in the final paragraph of the report. The qualification is indicated by the inclusion of the phrase “except for the deficiency described in the preceding paragraph.”
To the Owners
JA and Associates

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

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

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

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

May 30, 19__

BC & Company
for review by a firm

or

Daniel Hill
Team Captain
for review by an association sponsored or committee appointed review team
Key Points:

- This report is qualified for noncompliance with the firm's quality control policies and procedures for supervision of its only office. Therefore, it describes the reasons for the qualification, but it does not refer to the underlying engagement deficiencies. The qualifying paragraph of the report makes reference to the letter of comments.

- As is customary, the review year ends about three to six months before the review commences.

- The opinion of the reviewer is included in the final paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency noted in the preceding paragraph."
.58 Adverse Report on an On-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program

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

December 20, 19—

To the Owners
HL and Company

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

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

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

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

HL and Company

[for review by a firm]

or

John Doe
Team Captain

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

AICPA Peer Review Program Manual

PRP § 3300.58
Key Points:

- The report is adverse because of significant deficiencies in the design of the quality control system and pervasive noncompliance with the firm's system of quality control as a whole. Therefore, it includes a description of the reasons for the adverse report, including a reference to the underlying engagement deficiencies.

- The qualifying paragraph of the report makes reference to the letter of comments.

- The final paragraph of the report gives an adverse opinion on the system of quality control.
To the Owners
AB & Company

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

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

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

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

YZ & Company

[for review by a firm]

or

John Smith
Team Captain

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

- This is the standard unqualified report on an on-site peer review of a firm with an accounting and auditing practice that is a member of the private companies practice section. If the firm did not perform any accounting (or auditing) engagements during the year under review, the report should be tailored to indicate this.

- As is customary, the review year ends about three to six months before the review commences. (The review year does not have to be the same as the firm's fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.)

- The fourth paragraph of the report identifies the firm as a member of the private companies practice section. Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA division for CPA firms, along with the letter from the state CPA society accepting those documents.
Qualified Report for a Supervision Design Deficiency on an On-Site Peer Review of a Firm in the Private Companies Practice Section

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

December 3, 19__

To the Owners
PG & Associates

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

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

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

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

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

SR & Company

for review by a firm

or

Ashley Brown
Team Captain

for review by an association sponsored or committee appointed review team

AICPA Peer Review Program Manual

PRP § 3300.60
Key Points:

- This report is qualified for a design deficiency in the reviewed firm's quality control system for supervision of its only office. Therefore, the third paragraph includes a description of the reason for the qualification without referring to the underlying engagement deficiencies.

- The third paragraph of the report makes reference to the letter of comments.

- The opinion of the reviewer on the quality control system is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."

- The final paragraph of the report identifies the firm as a member of the private companies practice section. Even though a qualified opinion is being given on the firm's quality control system, an unqualified opinion is being expressed on the firm's compliance with the section's membership requirements.
.61 Qualified Report for Noncompliance With Quality Control Policies and Procedures for Supervision on an On-Site Peer Review of a Firm in the Private Companies Practice Section

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

August 30, 19__

To the Owners
SC & Company

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

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

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

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

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

AA & Company

for review by a firm

or

Jane White
Team Captain

for review by an association sponsored or committee appointed review team

AICPA Peer Review Program Manual

PRP § 3300.61
Key Points:

- This report is qualified for noncompliance with the firm's quality control policies and procedures for supervision of its only office. Therefore, the third paragraph of the report includes a description of the reason for the qualification without referring to the underlying engagement deficiencies.

- The third paragraph of the report makes reference to the letter of comments.

- The opinion of the reviewer on the firm's quality control system is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."

- The final paragraph of the report identifies the firm as a member of the private companies practice section. Even though a qualified opinion is being expressed on the firm's quality control system, an unqualified opinion is being given on the firm's compliance with the section's membership requirements.
.62  Adverse Report on an On-Site Peer Review of a Firm in the Private Companies Practice Section

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

May 3, 19___

To the Owners

NH & Company

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

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

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

In our opinion, because of the significance of the matters discussed in the preceding paragraph, the system of quality control for the accounting and auditing practice of NH & Company in effect for the year ended January 31, 19___, did not meet the objectives of quality control standards established by the AICPA and was not being complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice.
NH & Company is a member of the private companies practice section of the AICPA division for CPA firms (the section) and has agreed to comply with the membership requirements of the section. In connection with our review, we tested the firm’s compliance with those requirements to the extent we considered appropriate. In our opinion, the firm was not in conformity with the membership requirements of the section in all material respects because it did not comply with the AICPA quality control standards for the year ended January 31, 19__.
Key Points:

- This report is adverse because of significant deficiencies in the design of the quality control system and pervasive noncompliance with the firm’s system of quality control as a whole. Therefore, it includes a description of the reasons for the adverse report, including a reference to the underlying engagement deficiencies.

- The third paragraph of the report makes reference to the letter of comments.

- The fourth paragraph of the report includes the reviewer’s opinion on the quality control system. The adverse report is indicated by the inclusion of the phrase “because of the significance of the matters discussed in the preceding paragraph.”

- The fifth paragraph of the report gives an adverse opinion on the firm’s compliance with the section’s membership requirements due to noncompliance with the AICPA quality control standards. This paragraph does not include a reference to the letter of comments since such a reference was included in the third paragraph.
.63 Qualified Report for Noncompliance With the Membership Requirements on the On-Site Peer Review of a Firm in the Private Companies Practice Section

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

August 15, 19_...

To the Owners
MM and Co.

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

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

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

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

YZ & Company

[for review by a firm]

or

John Smith
Team Captain

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

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

- Even though the report is qualified for noncompliance with the membership requirements of the private companies practice section, an unqualified opinion is being expressed on the quality control system.
.64 Qualified Report for Noncompliance With Quality Control Policies and Procedures for Supervision and With Membership Requirements on the On-Site Peer Review of a Firm in the Private Companies Practice Section

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

November 30, 19___

To the Owners
DC & Company

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

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

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

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

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

BA & Company

[for review by a firm]

or

John Smith
Team Captain

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

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Key Points:

- This report is qualified for noncompliance with the quality control policies and procedures for supervision of its only office. Therefore, it includes a description of the reason for the qualification without referring to the underlying engagement deficiencies. The description of the qualification makes reference to the letter of comments.

- The fourth paragraph of the report includes the reviewer's opinion on the quality control system. The qualification is indicated by the inclusion of the phrase “except for the deficiency described in the preceding paragraph.”

- This report is also qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. Therefore, the last sentence of the membership paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. This paragraph does not make reference to the letter of comments, since a reference has been included in the third paragraph of the report.
.65 Unqualified Report on an Off-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Both Compilations and Reviews

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

October 7, 19__

To the Owners
LMN & Company

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

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

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

Singer & Company

[for review by a firm]

or

Carole Singer
Reviewer

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

- This is the standard unqualified report on an off-site peer review of a firm with both compilation and review engagements that is enrolled in the AICPA peer review program.

- The individual performing the review is referred to as the "reviewer" and not the "review team captain."

- Since the firm is enrolled in the AICPA peer review program, no copy of this report or any other documents related to this review will be placed in a public file.
.66 Unqualified Report on an Off-Site Peer Review of a Firm Enrolled in the AICPA Peer Review Program That Performs Compilations Only

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

October 7, 19__

To the Owners
DBR & Company

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

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

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

White & Company [for review by a firm]

[or]

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

Reviewer
Key Points:

- This is the standard unqualified report on an off-site peer review of a firm enrolled in the AICPA peer review program that performs compilation engagements only.
- The first paragraph has been tailored to indicate that the firm performs no "audits or reviews."
- The second paragraph has not been tailored since the description of all off-site peer reviews should be consistent with the peer review standards.
- The conclusion paragraph has been tailored to focus on compilation reports since no review reports were submitted. If a firm performs review engagements but no compilation engagements, the off-site peer review report should be tailored in a manner similar to this report.
.67 Qualified Off-Site Peer Review Report for Significant Departures From Professional Standards of a Firm Enrolled in the AICPA Peer Review Program

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

October 7, 19__

To the Owners
ABC & Company

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

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

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

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

Brick & Company [for review by a firm]

or

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

- This is a report on an off-site review qualified for significant departures from professional standards.
- The conclusion of the reviewer is included in the fourth paragraph of the report. The qualification is indicated by the inclusion of the phrase "with the exception of the matter described in the following paragraph."
- The reason for the qualified report is explained in the third paragraph of the report.
.68 Adverse Off-Site Review Report of a Firm Enrolled in the AICPA Peer Review Program

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

October 7, 19_—

To the Owners
RRS & Associates

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

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

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

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

West & Company [for review by a firm

or

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

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Key Points:

• This is an adverse report on an off-site peer review of a firm enrolled in the AICPA peer review program.

• The third paragraph explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned “matters important to an understanding of those statements” reviewed.

• The fourth paragraph includes the reviewer’s belief that the firm “did not have reasonable assurance of conforming with professional standards” during the period reviewed.

• The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.
.69 Unqualified Report on an Off-Site Peer Review of a Firm in the Private Companies Practice Section That Performs Both Compilations and Reviews

To the Owners
LLM & Company

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

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

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

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

YZ & Company

[for review by a firm]

or

John Smith
Reviewer

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

- This is the standard off-site peer review report on a firm that is a member of the private companies practice section.

- The fourth paragraph of the report identifies the firm as a member of the private companies practice section. Pursuant to the membership requirements of the private companies practice section, a copy of this report, the letter of comments, if any, and the firm's response thereto will be placed in the public files of the AICPA division for CPA firms, along with the letter from the state CPA society accepting those documents.

- The individual performing the review is referred to as the "reviewer" and not the "review team captain."
.70  **Unqualified Report on an Off-Site Peer Review of a Firm in the Private Companies Practice Section that Performs Compilations Only**

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

July 19, 19—

To John R. Doe, CPA

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

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

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

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

YZ & Company [for review by a firm]

or

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

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Key Points:

- This is the standard unqualified report on an off-site peer review of a member of the private companies practice section that performs compilation engagements only.
- The first paragraph has been tailored to indicate that the firm performs no "audits or reviews."
- The second paragraph has not been tailored since the description of all off-site peer reviews should be consistent with professional standards.
- The third paragraph has been tailored to focus on compilation reports since no review reports were submitted. If a firm performs review engagements, but no compilation engagements, the off-site peer review report should be tailored in a manner similar to this report.
- The final paragraph of the report identifies the firm as a member of the private companies practice section.
.71 Qualified Report for Significant Departures From Professional Standards on a Peer Review of a Firm in the Private Companies Practice Section

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

September 2, 19__

To the Owners
LMN & Associates

I have performed an off-site peer review with respect to the accounting practice of LMN & Associates for the year ended June 30, 19__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). LMN & Associates has represented to me that it performed no audits of historical or prospective financial statements during the year ended June 30, 19__. An off-site peer review consists only of reading selected financial statements and the accountant’s compilation and review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant’s report appears to conform with the requirements of professional standards. An off-site peer review does not provide the reviewer with a basis for expressing any assurance as to the firm’s quality control policies and procedures for its accounting practice, and we express no opinion or any form of assurance on them.

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

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

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

[Signature]

John Smith

for review by a firm

or

[Signature]

John Smith
Reviewer

for review by an association sponsored or committee appointed reviewer

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Key Points:

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

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

December 15, 19__

To the Owners

ZAP & Company

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

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

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

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

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

YZ & Company [for review by a firm]

or

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

Reviewer

PRP § 3300.72

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Key Points:

• This is an adverse report on the off-site peer review of a firm in the private companies practice section.

• The third paragraph explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned "matters important to an understanding of those statements" reviewed.

• The fourth paragraph includes the reviewer's belief that the firm "[did] not have reasonable assurance of conforming with professional standards" during the period reviewed.

• Because the report on the accounting practice is adverse, the fifth paragraph on the compliance with the membership requirements of the private companies practice section is also adverse.
.73 **Qualified Report for Noncompliance With the Membership Requirements on an Off-Site Peer Review of a Firm in the Private Companies Practice Section**

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

To the Owners
RTZ & Co.

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

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

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

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

```
JS & Company [for review by a firm]

or

__________________________
John Smith Reviewer [for review by an association sponsored or committee appointed reviewer]
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**PRP § 3300.73**

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Key Points:

- The final paragraph of the report is qualified for noncompliance with the continuing professional education membership requirement of the private companies practice section. The last sentence of the final paragraph describes the reason for the qualification without referring to the number of people who were not in compliance with the requirement or the hours missed. That sentence also makes reference to the letter of comments.

- Even though the report is qualified for noncompliance with the membership requirements of the private companies practice section, the report indicates that nothing came to the reviewer’s attention that caused him to believe that the compilation and review reports submitted by the firm did not conform with professional standards.

- The firm has both compilation and review engagements. The report should not refer to review engagements if the firm only performs compilations.
.74 Qualified Report for Significant Departures From Professional Standards and Noncompliance With the Membership Requirements on an Off-Site Peer Review of a Firm in the Private Companies Practice Section

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

May 29, 19__

To the Owners

RFA & Co.

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

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

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

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

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

YC & Company

[ for review by a firm ]

or

John Smith
Reviewer

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

PRP § 3300.74

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Key Points:

- This is an off-site peer review report qualified for significant departures from professional standards. The reason for the qualified report is explained in the third paragraph of the report.

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

[The next page is 3401.]
PRP Section 3400

Guidance for Writing a Letter of Comments

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

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Introduction

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

Objectives

.02 The major objectives of the letter are to—

a. Report matters (including the matters, if any, that resulted in a qualified report) that the review team believes resulted in conditions being created in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, and to set forth recommendations regarding those matters.

b. Provide information about the effectiveness of the firm's quality control system.

c. Provide the peer review committees and public oversight board, if applicable, with some of the information necessary to evaluate the appropriateness of the reviewed firm's responses to significant deficiencies noted in the review and whether the actions taken or planned by the firm appear appropriate in the circumstances.

General Guidelines

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

a. A reference to the report indicating if it was qualified.

b. A description of the purpose of the peer review.

c. A statement that the review was performed in accordance with the standards established by the applicable committee.

d. A description of any limitations on the scope of the review.

e. A description of the limitations of a system of quality control.

f. The reviewer's findings and recommendations.

g. A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

Matters to Be Included in the Letter of Comments

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

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

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\(^1\) Membership requirements are applicable only to peer reviews of SECPS and PCPS members. See SECPS § 1000, "Organizational Structure and Functions of the SEC Practice Section," in the SEC Practice Section Reference Manual and PCPS § 1000, "Organizational Structure and Functions of the Private Companies Practice Section," in the Private Companies Practice Section Reference Manual for additional information about the membership requirements.
the evidence obtained during the review must be evaluated qualitatively and not primarily on a quantitative basis. Reviewers should take the necessary time to investigate findings and understand the underlying cause of the finding from the perspective of the quality control system.

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

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

Reporting Considerations

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

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

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

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

Noncompliance With the Firm's Quality Control System

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

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

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

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

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

AICPA Peer Review Program Manual  PRP § 3400.14
non-compliance noted, as well as the implications for the firm’s quality control system as a whole, not merely the importance in the specific circumstances in which the instances were observed. In order to do this, the review team should evaluate the instances of noncompliance, both individually and collectively, recognizing that adherence to certain policies or procedures is more critical to assuring conformity with professional standards than adherence to others. Accordingly, a higher degree of compliance should be expected for the more critical policies and procedures. However, noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards may also be reportable in a letter of comments. For example, a higher degree of noncompliance with a hiring policy relative to the obtaining of background information might be tolerated than with a policy which requires an independent partner to review the report and accompanying financial statements prior to issuance of the report.

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

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

**Noncompliance With Membership Requirements**

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

**Matters That Should Not Be Included in the Letter of Comments**

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

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

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

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3 See footnote 2.

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

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

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

Isolated Occurrences

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

Administrative Matters

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

Points to Consider When Writing the Letter of Comments

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

a. If a qualified report is issued, the letter should be divided into two sections: (a) Matters that resulted in a qualified (adverse) report, and (b) Matters that did not result in a qualified (adverse) report. If the report is not qualified, do not include the phrase “matters that did not result in a qualified (adverse) report.”

b. Use the format recommended in this section of “findings” and “recommendations for improvement.” Separate, clearly captioned paragraphs should be used to report the findings and related recommendations.

c. Include headings for each quality control element for which there is a comment.

d. Items included in the letter should have a “systems” orientation. That is to say, identify the underlying weakness in the quality control system which caused a particular engagement deficiency to occur. It should not just describe the engagement deficiency.

e. Identify the likely causes of the deficiencies (for example, describe the deficiencies as either design deficiencies or compliance deficiencies (performance or documentation)).

f. Group findings caused by the same deficiency into a single comment. For example, if the review team notes various disclosure deficiencies that are caused by the failure to use a disclosure checklist or to
Guidance for Performing and Reporting on Peer Reviews

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

g. Do not group unrelated findings into one comment. For example, disclosure deficiencies should be separated from comments regarding insufficient documentation unless they relate to the same quality control deficiency.

h. Describe the findings in a complete manner, but avoid excessive or unnecessary detail in the letter of comments.

i. Use general terms to indicate frequency of occurrence. Terms such as “in some instances” or “frequently” are preferable to the specific number of instances.

j. Do not identify specific engagements, individuals, or offices by name or otherwise. For example, do not refer to “the firm’s SEC engagement.”

k. Do not include personal preferences in the letter when they relate to procedures (such as engagement letters or time budgets) that are not required by the firm’s quality control system and are not essential to the reviewed firm’s conformity with professional standards on accounting and auditing engagements. Such matters may be communicated to the firm orally.

l. Avoid references to specific technical standards, where possible. In most instances, a general reference to “professional standards’” will suffice. If a reference to a specific technical standard is necessary, always include a complete description of the topic to which it relates.

m. When a finding describes a performance deficiency where the firm may have departed from professional standards, include a sentence advising the reader whether additional actions are necessary on the engagement reviewed (“close the loop”). If corrective actions are necessary, a description of the actions taken or planned by the reviewed firm should be included. Ordinarily, the reviewer need not “close the loop” for documentation deficiencies.

n. Use general terms when referring to purchased practice aids, instead of the names of specific publishers.

o. If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm’s previous peer or quality review, this fact ordinarily should be noted in describing the matter. In this regard, comments should not be written in a general manner such that they may be “automatically repeated” in the documents issued in connection with the firm’s next review.

p. Be careful not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm’s quality control system. Although forms and checklists may be helpful in many circumstances, their use will not cure all deficiencies. Think carefully about the cause of the deficiency and whether a more effective recommendation would provide a cure.

q. Have someone in your firm unfamiliar with the findings on the review read the letter of comments before it is finalized. Ask them whether they understand the findings and recommendations without asking any questions.

General Guidelines for Describing the Review Team’s Findings

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

a. Design deficiency—(1) state what the system does or does not require; (2) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the AICPA Professional Standards, vol. 1, AU sections 390
and 561 or (b) lacked a reasonable basis under the standards for accounting and review services for the
reports issued—were attributable to the design deficiency; and (3) describe the effect, if any, that the
deficiency had on the financial statements issued.

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

.26 Under the above guidelines—

a. A good way to start a letter of comments finding would be with the following words: "The firm’s quality
control policies and procedures. . . ." Then go on to state what the system does or does not require. This
informs the reader of the status of the quality control system.

b. The second sentence of the finding explains the result, such as "As a result. . . ." or "However, the firm
did not always comply with these policies and as a result. . . ."

c. The last sentence should "close the loop" if the finding relates to an engagement performance deficiency.
Following are some examples of "closing the loop":

* None of the missing or incomplete disclosures represented significant departures from professional
standards.

* None of the missing disclosures were of such significance to make the financial statements mis-
leading.

* We noted financial statements that did not include all of the disclosures required by generally
accepted accounting principles, and, in one instance, financial statements that were materially
misstated. The report on the latter financial statements has been recalled, and the financial
statements are being revised.

* We were satisfied that the firm performed the necessary procedures even though they were not
documented.

* We found one engagement in which, as a result of a lack of involvement by the engagement
partner in planning the audit, the work performed on receivables and inventory did not appear to
support the firm’s opinion on the financial statements. As a result of this finding, the firm
performed the necessary additional procedures to provide a satisfactory basis for its opinion.

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

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

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

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

**Illustrative Examples That Might Be Included in the Letter of Comments**

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

a. The extent to which the designed system meets these objectives, and

b. The instances of noncompliance with the policies and procedures established by the firm.

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

**Independence**

**Quality Control Objective**

Statement on Quality Control Standards No. 1 states that—

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

**Illustrative Examples of Design Deficiencies**

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

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

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

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

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


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

Illustrative Examples of Compliance Deficiencies

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

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

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

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

Assigning Personnel to Engagements

Quality Control Objective

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

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

Illustrative Examples of Design Deficiencies

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

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

.41 Finding—The firm’s quality control policies and procedures do not require that the person responsible for assigning personnel to engagements consider special industry knowledge when assigning all levels of personnel to

6 See footnote 5.
engagements. We noted that the firm relies heavily on the engagement owner's background and knowledge and does not give adequate consideration to the complexity or other requirements of the engagement when assigning other engagement personnel. On several engagements, we noted instances in which certain personnel did not have sufficient experience or training in the areas assigned to them. As a result, the firm did not properly report on several financial statements in a specialized industry. The firm has appropriately recalled and reissued all of the reports.

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

Illustrative Examples of Compliance Deficiencies

A2 Finding—The firm's quality control policies and procedures require that engagement owners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, on some engagements reviewed, the personnel below the owner level did not appear to have adequate experience to handle their work. As a result, certain procedures were not performed properly. The firm has considered the requirements of professional standards, and has determined that enough procedures had been performed in other areas to support the report issued on the financial statements.

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

Consultation

Quality Control Objectives

A3 Statement on Quality Control Standards No. 1 states that—

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

Illustrative Examples of Design Deficiencies

A4 Finding—Our review disclosed that the firm's consultation policies and procedures do not identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. As a result, we noted a few instances where consultation was lacking when it would have been appropriate. These instances did not, however, result in the issuance of an inappropriate report.

Recommendation—The firm should revise its quality control policies and procedures to specify the situations where, because of their nature or complexity, consultation is required. Such situations might include the following: (1) the application of newly issued technical pronouncements, (2) the application of a regulatory agency's filing requirements, (3) industries with special accounting, auditing, or reporting considerations, (4) emerging practice problems, and (5) cases where there is a choice among alternative generally accepted accounting principles.

7 See footnote 5.
.45 Finding—Our review disclosed that the firm’s consultation policies and procedures do not provide procedures for resolving differences of opinion among engagement personnel and specialists. We noted no instances in which differences of opinion on practice problems had not been resolved to the satisfaction of all the parties involved, even though the individuals indicated that they did not have a clear understanding of the steps to be followed in such circumstances.

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

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

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

Illustrative Examples of Compliance Deficiencies

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

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

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

Recommendation—We recommend that, in addition to consulting outside sources when necessary, the firm also consult the appropriate technical literature. If differences arise between these sources, the firm should take steps to reconcile the differences.

.49 Finding—The firm’s quality control policies and procedures state that when experience is not available within the firm to resolve a practice question or problem, the engagement owner should consult with the AICPA or the state CPA society. Our review disclosed an instance where the firm did not have the experience required and did not consult with the AICPA or the state CPA society as required. In this instance, an owner designated as a specialist in another industry was consulted, but the advice rendered resulted in the misapplication of a generally accepted accounting principle. Since the amount involved did not make the financial statements misleading, the firm did not have to recall its report; the client has agreed, however, to adjust the financial statements in the next period in which they are prepared.

Recommendation—We recommend that the firm discuss at an owner and staff training session the importance of consulting the appropriate resources and that, when those resources are not available internally, an
outside one should be contacted. In addition, designated specialists should be reminded that they should not exceed their authority in consultative situations by providing advice in areas outside their expertise.

.50 Finding—The firm’s policies and procedures require consultation in situations that involve complex subject matter or newly issued technical pronouncements. During our review, we noted several instances where the firm did not consult, but should have. The firm issued several reports on financial statements prepared on a basis of accounting prescribed by a regulatory agency for filing with that agency. However, the auditors’ reports issued did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor’s reports misleading.

Recommendation—We recommend the firm revise its quality control checklist to require the engagement and/or concurring owners to affirm specifically that consultation occurred in all situations where it appears to be required by firm policy or otherwise warranted. In addition, the firm should discuss at a staff training session its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

Supervision

Quality Control Objective

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

Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide the firm with reasonable assurance that the work performed meets the firm’s standards of quality. The extent of supervision and review appropriate in a given instance depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work, and the extent of consultation available and used. The responsibility of a firm for establishing procedures for supervision is distinct from the responsibility of individuals to adequately plan and supervise the work on a particular engagement.\(^8\)

Illustrative Examples of Design Deficiencies

.52 Finding—The firm’s policies and procedures require the engagement owner to review the firm’s reports and the accompanying financial statements before they are issued. However, on several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the areas of related party transactions and leases. None of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should revise its quality control policies and procedures for ensuring that clients’ financial statements include all relevant disclosures. This could be accomplished by obtaining or developing comprehensive reporting and disclosure checklists and requiring that these checklists be completed by a member of the engagement team, reviewed by the engagement owner, and retained with the engagement working papers.

.53 Finding—The firm’s quality control policies and procedures do not specify the working papers that should be reviewed by engagement owners or require any documentation of the partner’s reviews. While reviewing engagements, we were unable to determine from the working papers the extent of the engagement owner’s review. This did not result in the issuance of an inappropriate report.

Recommendation—The firm should revise its quality control policies and procedures to specify the extent and nature of the engagement owner’s review of work papers, and require documentation of the extent of the review. Such documentation can be in the form of initialing the working papers, file covers, or an owner review checklist.

\(^8\) See footnote 5.
.54 Finding—The firm’s quality control policies and procedures require that all accounting and auditing engagements be properly planned. However, the firm does not provide specific procedures for documenting its engagement planning, including the consideration of audit risks and preliminary judgments about materiality limits. During the review of engagements, we noted several instances where we could not determine if the firm had considered preliminary judgments about materiality or its assessment of control risk. Through discussion with firm personnel, we satisfied ourselves that appropriate planning procedures had been performed.

Recommendation—The firm should revise its policies and procedures to designate those matters that should be considered and documented during the planning process. These may include such areas as (1) current economic conditions affecting the client or the client’s industry and the potential effect on the conduct of the engagement, (2) results of preliminary analytical procedures, (3) changes in the client’s organization, (4) need for specialized knowledge, (5) proposed work programs, and (6) preliminary judgments about materiality levels. In establishing such policies, the firm should consider obtaining or designing a planning checklist or requiring the preparation of an overall planning memorandum.

.55 Finding—The firm requires that its model audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. As a result, our review of engagements disclosed that certain industry-specific audit procedures were not performed. The firm has subsequently performed the omitted procedures to support the audit opinion issued.

Recommendation—The firm’s planning policies and procedures should be expanded to include a review and, when necessary, tailoring of the audit program before the start of field work. The firm should consider obtaining or developing audit programs that are reflective of the specialized industries in which its clients operate.

.56 Finding—The firm does not provide its professional staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm’s review and compilation working papers did not include documentation of all the procedures required by firm policy or professional standards. However, we were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

Recommendation—Although not required by professional standards, the firm should consider obtaining or developing work programs for use on review and compilation engagements.

.57 Finding—The firm’s policies and procedures do not require documentation of sample selections and evaluation of the results of sampling applications. During our review of engagements, we noted several instances where the firm performed non-statistical sampling, but did not document its considerations. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

Recommendation—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results for statistical and nonstatistical sampling. This may be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards.

.58 Finding—The firm’s quality control policies and procedures do not require documentation of its understanding of an entity’s internal control structure on engagements for which it has assessed control risk at the maximum level. As a result, on several engagements reviewed there was no documentation in the working papers of the firm’s understanding of the internal control structure of the client. However, we were satisfied that the firm has a good understanding of the client’s internal control structure and that the audit was properly planned.

Recommendation—The firm should revise its policies and procedures to require documentation of its understanding of internal control structures on all audit clients as required by professional standards. Such documentation may be in the form of a memorandum in the working papers.

.59 Finding—The firm has acquired accounting and auditing practice aids from a third-party provider. Our review disclosed that the firm has selectively used these materials in conjunction with materials from other sources without carefully reviewing the compatibility of the materials. As a result, on the audit engagements
reviewed, the programs and checklists used did not address certain aspects of engagement planning, particularly preliminary analytical review, audit risk assessment, and consideration of an entity’s internal control structure. These areas were not adequately documented in the engagement workpapers; however, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

Recommendation—We recommend the firm review the materials obtained from the third-party provider and determine how they can best be implemented in the firm’s accounting and auditing practice. The use of other materials for specialized areas should be blended with the new materials in such a way that engagement planning is adequately addressed.

.60 Finding—The firm’s policies and procedures for reviewing accountants’ reports and financial statements before issuance are not adequately designed to ensure compliance with professional standards. During our review, we noted that on several compilation and review engagements the accountant’s report did not describe what responsibility, if any, the accountant was taking in regards to accompanying supplementary information. Also, we found some occasions where the supplementary information was not referenced to the accountant’s report. In all cases, supporting working papers were present to indicate an appropriate level of service had been performed on the supplementary information. The firm’s inspection program did identify this situation and use of a disclosure checklist was instituted subsequent to the year under review.

Recommendation—Although not required by professional standards, the firm should implement the use of reporting and disclosure checklists on all engagements. Continued monitoring of its use through the inspection process will help ensure adherence to the firm’s quality control standards.

.61 Finding—The firm’s policies and procedures require the engagement owner to review the accountants’ or auditors’ reports and accompanying financial statements before they are issued. During our review, we noted instances where the accountants’ reports did not report on supplementary data included in the financial statements. In addition, an auditor’s report prepared on a basis prescribed by a regulatory agency did not include the appropriate wording required by professional standards. None of the reporting deficiencies were of such significance as to require additional action by the firm.

Recommendation—The firm should establish a mechanism to assist owners in reviewing auditors’ reports and accompanying financial statements, such as requiring staff to use a comprehensive reporting checklist. The engagement owner can then review the checklist prior to issuance of the accountants’ or auditors’ reports.

Illustrative Examples of Compliance Deficiencies

.62 Finding—The firm’s policies and procedures require the use of standard programs on audit engagements for the review of EDP controls. However, we noted that these programs were not always used. As a result, audit working papers did not include documentation of the firm’s understanding of its clients’ EDP controls. We were able to satisfy ourselves that a sufficient review of these controls had been performed in accordance with professional standards.

Recommendation—The firm should discuss at a staff training session its policy to use standard programs to review EDP controls. All owners should be advised to monitor compliance with this policy when reviewing audit working papers. Further, the firm should add a step to its planning checklist to ensure that EDP programs have been completed.

.63 Finding—On several of the engagements reviewed, we noted that a review by an owner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance to make the financial statements misleading.

PRP § 3400.60

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Guidance for Writing a Letter of Comments

Recommendation—The firm should comply with its policy of having a second owner review each engagement. To insure compliance with this policy, the firm should require that the second owner initial the report control sheet before the report is issued.

.64 Finding—The firm’s audit programs outline steps for performing and documenting audit planning procedures for preliminary judgments about materiality levels, planned assessed level of control risk, analytical review procedures, and conditions that may require extension or modification of tests. However, our review disclosed several instances where the firm’s planning working papers did not include documentation for these areas. Through discussion with engagement personnel, we were able to satisfy ourselves that the engagement planning was adequate.

Recommendation—The firm should hold a training session for all professionals on the matters to be considered and documented when planning an audit engagement. In addition, the firm may consider obtaining or developing a planning checklist to assist staff when planning an audit engagement and documenting the results thereof.

.65 Finding—The firm’s policies and procedures require communication of reportable conditions noted during an audit to client management in accordance with professional standards. During our review, however, we noted instances where the communication of reportable conditions in internal accounting controls was not documented. Although the firm has represented that the reportable conditions were communicated orally to its client, there was no memorandum or notation in the working papers as required by professional standards.

Recommendation—The firm should discuss at a staff meeting the importance of adhering to professional standards regarding documentation of communication of reportable conditions. In addition, the firm should also update its audit programs to include a step on documenting the communication of reportable conditions.

.66 Finding—The firm’s quality control policies and procedures require completion of a reporting and disclosure checklist and an owner review of the firm’s reports and accompanying financial statements prior to issuance. However, on several engagements reviewed, we noted inappropriate answers on these checklists. As a result, several financial statements did not include all the disclosures required by generally accepted accounting principles in such areas as concentrations of credit risk and related-party transactions. None of the missing disclosures were of such significance as to make the financial statements misleading.

Recommendation—The owners of the firm should carefully review the report and disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with the staff the questions on the financial statement reporting and disclosure checklist. The firm should monitor compliance with this item in its next inspection.

Hiring

Quality Control Objective

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

Policies and procedures for hiring should be established to provide the firm with reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently. The quality of a firm’s work ultimately depends on the integrity, competence, and motivation of personnel who perform and supervise the work. Thus, a firm’s recruiting programs are factors in maintaining such quality.9

9 See footnote 5.
Illustrative Example of Design Deficiencies

.68 Finding—The firm’s policies and procedures require that new hirees possess certain specified qualifications. However, the policies do not require that the firm document its hiring decisions and the basis thereof. As a result, the personnel files did not always contain sufficient evidence confirming that the individuals hired possessed the required qualifications. During our review of engagements, nothing came to our attention to indicate that the individuals hired by the firm did not possess the required qualifications.10

Recommendation—We recommend that the firm revise its policies and procedures to require that hiring decisions be documented. The nature of the documentation may vary; however, at a minimum, it should document whether an individual meets the stated qualifications and, if not, why it is acceptable to deviate from the firm’s stated hiring criteria in the situation.

Illustrative Example of Compliance Deficiencies

.69 Finding—The firm’s policies require that certain background information be obtained relative to the qualifications of prospective employees (including resumes, applications, college transcripts, and references). During our review, we noted numerous instances in which the personnel files for professional staff hired other than through the firm’s college campus recruiting program did not contain evidence that the individual met the firm’s stated qualifications.

Recommendation—We recommend that the firm take greater care in ensuring that it complies more fully with its policies. The firm should assign an individual with appropriate experience to monitor the firm’s compliance with its policy of obtaining background information on prospective employees.

Professional Development

Quality Control Objective

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

Policies and procedures for professional development should be established to provide the firm with reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. Continuing professional education and training activities enable a firm to provide personnel with the knowledge required to fulfill responsibilities assigned to them and to progress within the firm.11

Illustrative Examples of Design Deficiencies

.71 Finding—Although the firm’s personnel were in compliance with the firm’s and the section’s continuing professional education requirement, an inadequate amount of the courses taken were in accounting and auditing related areas. As a consequence, we encountered instances in which emerging issues and matters relating to recent professional pronouncements had not been considered on engagements. In one such instance, the report was recalled and the accompanying financial statements were restated.

Recommendation—The firm’s policies and procedures should be revised to include a requirement that personnel participate in an appropriate amount of continuing professional education in accounting and auditing areas.

.72 Finding—The firm’s policies and procedures require that professional staff participate in at least forty hours of continuing professional education courses and that the administrative owner compile, at the end of each year—

10 This example may not be applicable for smaller firms that have ongoing monitoring and involvement of senior personnel of the firm with respect to this element of quality control.

11 See footnote 5.
educational year, a summary of professional education courses in which the professional staff participated. The policies and procedures do not require that the files be maintained during the period or that the files be reviewed periodically to determine whether the staff is in compliance with the firm’s requirements. During our review, we noted a few individuals who had not participated in the required amount of continuing professional education courses during the year under review and were unable to make up the deficiency during the two-month grace period that followed the education year end.

Recommendation—We recommend that the firm revise its quality control policies and procedures to require that the administrative owner maintain current professional development records and that he review these periodically to determine whether the professional staff are complying with the firm’s policies in this area.

.73 Finding—The firm’s policies and procedures require that the firm maintain formal professional development records documenting each professional education course in which the professional staff participated. However, the policies and procedures do not specify the nature or extent of these records. Consequently, we noted incomplete documentation in the continuing professional education records, even though we were satisfied that the staff had participated in a sufficient amount of continuing professional education.

Recommendation—We recommend that the firm’s policies and procedures be revised to require that records be maintained for each professional in the firm for the five most recent educational years. Furthermore, the policies should require that the following information be maintained relative to each continuing professional education activity for which credit is claimed:

- Sponsoring organization
- Location of program by city and state
- Title of program and/or description of content
- Dates attended or completed
- Continuing professional education hours claimed

.74 Finding—The firm’s policies and procedures require that professional staff participating in governmental engagements meet the continuing education requirements established both by the section and Government Auditing Standards. However, we noted that the firm has not specifically identified these staff members and monitored their compliance with government auditing standards. As a result, we noted several individuals who had not completed sufficient professional education courses to comply with government auditing standards.

Recommendation—The firm’s professional education director should identify and monitor those individuals participating in governmental engagements to ensure that the government auditing standards continuing professional education requirements are met.

.75 Finding—The firm’s policies and procedures require all firm personnel to meet the professional development requirements of both their state board of accountancy and the American Institute of Certified Public Accountants. While firm personnel met these requirements, the courses taken did not provide firm personnel with sufficient information about current developments in accounting and auditing matters. As a result, our review discovered that firm personnel were not aware of recent pronouncements and new disclosure requirements and had not made necessary disclosures in financial statements in such areas as concentrations of credit risk and income taxes. None of the missing disclosures were of such significance to make the financial statement misleading.

Recommendation—The firm should revise its quality control policies to require firm personnel to participate in an appropriate amount of accounting and auditing continuing professional education in the industry areas in which the firm practices.
Illustrative Examples of Compliance Deficiencies

.76 Finding—Our review disclosed that professional staff had not received copies of certain professional pronouncements issued during the past year as required by firm policy. During our review, we did not note any significant departures from professional standards as a result of this deficiency.

Recommendation—In order to keep professional staff current on financial accounting, auditing and reporting matters, we recommend that all professional staff receive copies of professional pronouncements as soon as they are available to the firm for distribution.

Advancement

Quality Control Objective

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

Policies and procedures for advancing personnel should be established to provide the firm with reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume. Practices in advancing personnel have important implications for the quality of a firm’s work. Qualifications that personnel selected for advancement should possess include, but are not limited to, character, intelligence, judgment, and motivation.12

Illustrative Example of Design Deficiencies

.78 Finding—The firm has not established specific policies and procedures regarding the qualifications necessary for each level of responsibility within the firm and for the advancement of personnel. However, we did not encounter any situation where the firm’s personnel did not have the qualifications necessary to fulfill their responsibilities.13

Recommendation—We recommend that the firm establish and document the qualifications necessary for each level of responsibility and create a review structure to ascertain that personnel meet the firm’s requirements before they are promoted.

Illustrative Example of Compliance Deficiencies

.79 Finding—The firm’s policies and procedures require periodic personnel evaluations. Our review of the personnel files indicates that this policy is not always being adhered to for management level personnel.14

Recommendation—Personnel at all levels should be provided with constructive recommendations for improvements in their performance. The firm should develop a system for monitoring the timely completion of periodic evaluations of personnel.

Acceptance and Continuance of Clients

Quality Control Objective

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

Policies and procedures should be established for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management

12 See footnote 5.
13 See footnote 10.
14 See footnote 10.
lacks integrity. Suggesting that there should be procedures for this purpose does not imply that a firm vouches for the integrity or reliability of a client, nor does it imply that a firm has a duty to anyone but itself with respect to the acceptance, rejection, or retention of clients. However, prudence suggests that a firm be selective in determining its professional relationships.15

Illustrative Examples of Design Deficiencies

.81 Finding—The firm’s policies and procedures do not require communication with the predecessor auditor of a prospective client as required by professional standards. During our review, we noted an instance where there was no documentation of communication with a predecessor auditor. However, we were informed by the firm’s personnel that the required communication had been made orally.

Recommendation—The firm should revise its quality control document to require communication with predecessor auditors and to require that such communications be documented.

.82 Finding—The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance as clients, and for the periodic evaluation of all clients to ensure that the firm’s criteria for client continuance are met. However, the firm does not require any specific documentation of such evaluations and we noted no documented evidence that evaluations had been performed. We were informed by the firm’s owners that they had complied with their policies and procedures, but had not documented this information.

Recommendation—The firm’s quality control policies and procedures should be revised to require documentation of its acceptance and continuance procedures and decisions. The firm should revise and implement client acceptance and continuance forms to ensure that all appropriate factors are considered in each case.

.83 Finding—The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance as clients. However, the firm does not have specific procedures for handling the acceptance of an engagement in a specialized industry for which it does not have the necessary industry expertise. During our review, we noted an instance where the firm accepted an engagement in a specialized industry when it had no prior experience in that industry and it did not update its library to include reference materials related to that area of practice. As a result, certain industry-specific audit procedures were not performed on that engagement. The firm has subsequently performed the omitted audit procedures to support the audit opinion issued.

Recommendation—The firm should revise its quality control policies and procedures for client acceptance to require that, when an engagement is accepted in a specialized industry for which the firm has no prior experience, a specific action plan be developed and documented for obtaining the necessary industry expertise. The firm should not perform engagements in specialized industries unless it obtains the appropriate experience or expertise. This matter should be emphasized during the firm’s next inspection.

Illustrative Examples of Compliance Deficiencies

.84 Finding—The firm’s quality control policies and procedures specify criteria that should be considered when making client continuance decisions and requires that such decisions be documented. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm’s policies. However, we were informed by the firm’s owners that continuance decisions are discussed informally and that continuance is assumed by staff in the absence of instructions to discontinue service to the client.

Recommendation—The firm should comply with its policies and procedures by periodically evaluating its existing clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy, possibly through the use of a standardized form that could be examined as part of the planning process.

15 See footnote 5.
Guidance for Performing and Reporting on Peer Reviews

.85 Finding—The firm’s quality control policies and procedures regarding new client acceptance require the preparation and approval of a new client acceptance form to document the considerations and conclusions. During our review, we noted that the form was not prepared for all new clients. However, we were informed by the firm’s owners that appropriate considerations had been made in each case.

Recommendation—To ensure that all appropriate facts are considered when accepting a new client, the firm should comply with its policy of documenting its considerations and conclusions by completing the new client acceptance form for each new client.

Inspection

Quality Control Objective

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

Policies and procedures for inspection should be established to provide the firm with reasonable assurance that the procedures relating to the other elements of quality control are being effectively applied. Procedures for inspection may be developed and performed by individuals acting on behalf of the firm’s management. The type of inspection procedures used will depend on the controls established by the firm and the assignment of responsibilities within the firm to implement its quality control policies and procedures.16

Illustrative Examples of Design Deficiencies

.87 Finding—The firm’s quality control policies and procedures do not require that a formal annual inspection program be performed. However, the firm does require pre-issuance reviews of each audit, review, and compilation report, the accompanying financial statements and the related working papers by both the engagement owner and an owner or a manager who is not otherwise associated with the engagement. The firm’s procedures do not require an annual review of the firm’s compliance with each element of quality control, nor do they require a written summary of deficiencies identified or corrective actions taken or planned to be taken.

Recommendation—The firm should revise its quality control policies and procedures to require that a formal annual inspection be performed. The firm’s inspections should address each of the elements of quality control in addition to engagements. The quality control policies and procedures should also require the preparation of written inspection reports that summarize the deficiencies identified and document the actions taken or planned to prevent similar deficiencies from occurring in the future.

.88 Finding—The firm’s inspection policies and procedures omit specialized industry knowledge as criteria in selecting inspectors. As a result, a manager reviewed several engagements in a specialized industry of which the manager had little knowledge. Our review of engagements in this industry, however, did not disclose any significant departures from professional standards.

Recommendation—The firm should revise its quality control policies and procedures to include technical expertise and relevant specialized industry knowledge as a criteria in selecting inspectors. In doing so, the firm can implement appropriate corrective actions for inspection findings.

.89 Finding—The firm’s inspection policies and procedures do not require the preparation of memoranda summarizing the results of the firm’s annual inspection program and the implementation of corrective actions. As a result, the firm did not document its monitoring of the actions taken in response to the inspection findings.

Recommendation—The firm should revise its quality control policies and procedures to require the preparation of an inspection memorandum summarizing findings, indicating recommended corrective actions, and setting

16 See footnote 5.

PRP § 3400.85
timetables for completing the corrective actions. At a minimum, the memorandum should be distributed to key management personnel and an owner should be designated to monitor the firm’s compliance with the policy.

Illustrative Examples of Compliance Deficiencies

.90 Finding—The firm’s policies and procedures require that findings on engagement reviews be summarized so that management can consider what types of actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews on the most recent inspection, even though each engagement owner considered and responded to findings on their individual engagements.

Recommendation—The firm should comply with its policy of summarizing inspection findings, considering the overall systems’ implication of these findings and documenting management’s monitoring of the actions taken. An owner in the firm should be designated to monitor the firm’s compliance with this policy.

.91 Finding—The firm’s quality control document requires that annual inspections be performed in accordance with the AICPA’s “Guidelines on How to Perform an Internal Inspection.” In the most recent inspection, however, the firm did not review certain elements of quality control.

Recommendation—The firm should comply with its quality control policies and procedures by using all of the recommended forms in the AICPA’s “Guidelines on How to Perform an Internal Inspection.” The use of these forms should result in the performance of all the required inspection procedures, including the review of all of the functional areas of quality control. In addition, an owner in the firm should be designated to monitor the firm’s compliance with this policy.

.92 Finding—The firm’s quality control policies and procedures require timely annual inspections. Our review revealed that the reports on the past two inspections were dated almost one year after the particular inspection year-end. As a result, the firm did not implement the recommended corrective actions prior to beginning subsequent engagements.

Recommendation—To maximize the benefits that can be gained from a timely inspection, the firm should perform its inspections in a timely manner so that corrective actions can be implemented before procedures and engagements are performed in the subsequent year. The managing owner of the firm should monitor the firm’s timely performance of its annual inspection.

.93 Finding—The firm has a written quality control document that requires the firm to perform annual internal inspections. However, during our review, we noted that the firm did not perform annual inspections as required. If an adequate and timely inspection had been performed each year, many of the departures from professional standards that were noted during our review probably would have been identified and corrected.

Recommendation—The firm should comply with its quality control policies and procedures regarding inspection, and the managing owner of the firm should monitor the firm’s compliance with it.

Membership Requirements

PCPS & SECPs Membership Requirements

.94 Finding—The firm’s policies and procedures require that each professional in the firm participate in at least 120 hours of continuing professional education every three years, but not less than 20 hours each year. Our review disclosed that, for the period ended June 30, 19XX, several of the firm’s management personnel failed to comply with the three-year requirement.

Recommendation—The firm should establish procedures to monitor compliance, on a timely basis, with the section’s continuing education requirements.
Finding—The section requires that all professional staff, including CPAs and non-CPAs, participate in at least 120 hours of continuing professional education every three years with a minimum of 20 hours per year. The firm's policy is not consistent with this requirement, since its policy states that only CPAs are required to participate in the hours prescribed by the section. As a result, a significant number of professionals did not comply with the section's membership requirements since the firm did not monitor compliance by professionals who are not CPAs.

Recommendation—The firm should expand its continuing professional education requirements to encompass both CPAs and other professionals.

Finding—The firm's quality control policies and procedures are not consistent with the section's membership requirements which require each member firm to ensure that a majority of the owners of the firm are CPAs, and that the firm can legally engage in the practice of public accounting. Although the firm is qualified to practice under state law, only one of the owners is a CPA. This does not meet the majority requirement.

Recommendation—The firm should revise its policies and procedures to ensure compliance with all membership requirements. In addition, the firm should take steps necessary to be in compliance with this membership requirement as soon as possible.

SECPs Membership Requirements

Finding—The section's membership requirements require that each member firm establish policies and procedures for a concurring review of the report and financial statements by a partner other than the audit partner-in-charge of an SEC engagement before the issuance of an audit report on the financial statements of an SEC engagement. These policies and procedures should cover such areas as (1) qualifications of the concurring reviewer, (2) nature, extent, and timing of the review, and (3) documentation required evidencing that the reviewer had complied with the firm's policies and procedures for the concurring review. During our review of the working papers on these types of clients, we found inconsistency in the extent of the review and in the types of documentation contained in the working papers. However, we were satisfied that a comprehensive review was performed by qualified individuals.

Recommendation—We recommend that the firm's quality control policies and procedures be revised to include specific requirements regarding concurring review including the nature and extent of the review and the types of documentation required. This may include the implementation of a concurring reviewer's checklist and/or a requirement that the reviewer initial all memoranda and selected working papers, in addition to the report and financial statements.
Sample Letter of Comments for the SECPS Peer Review Program

[AICPA or other appropriate letterhead]  

September 15, 19___

[Should correspond with date of report]

To the Owners
Jones, Smith & Co.

We have reviewed the system of quality control for the accounting and auditing practice of Jones, Smith & Co. (the firm) in effect for the year ended June 30, 19___, and have issued our report thereon dated September 15, 19___ (which was qualified as described therein).* This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control and your compliance with it and with the membership requirements of the SEC practice section of the AICPA Division for CPA Firms (the section). Our review was performed in accordance with the standards promulgated by the peer review committee of the section; however, our review would not necessarily disclose all weaknesses in the system or lack of compliance with it or with the membership requirements of the section because our review was based on selective tests.

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

**Matters That Resulted in a Qualified Report †**

**Supervision**

*Finding*—Our review disclosed that the firm’s quality control policies and procedures do not provide a means of ensuring that the financial statements reported on include all relevant disclosures. As a result, we noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and in one instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.

*Recommendation*—The firm should adopt procedures to ensure that clients’ financial statements include all relevant disclosures, such as by obtaining or developing comprehensive financial statement disclosure and reporting checklists.

**Consultation**

*Finding*—Our review disclosed that the firm’s quality control policies and procedures for consultation with designated parties outside the firm were not followed on two engagements. One engagement, discussed above, involved a material error in a financial statement, on which the firm had issued an unqualified report. On the other engagement, the firm had issued an unqualified audit report when it was not independent. In both cases, we concluded that adherence to the firm’s consultation policies and procedures probably would have prevented the issuance of these reports, which the firm has since recalled.

*Recommendation*—The firm should (1) reemphasize the importance of its quality control policies and procedures for outside consultation, (2) more closely monitor compliance with its consultation policies and procedures during the preissuance review of engagements, and (3) emphasize these policies and procedures in its next inspection.

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* To be included if the review team issues a qualified or adverse report. The wording should be tailored to fit the circumstances.
† This caption is to be used only if a qualified or adverse report has been issued, and it should be tailored to fit the circumstances.
Matters That Did Not Result in a Qualified Report

Client Acceptance

Finding—The firm’s quality control policies and procedures require that the managing owner approve the acceptance of new clients and document such approval. We noted several instances where this had not been done. The letter of comments issued in connection with the firm’s prior peer review also noted that this policy had not been followed in a number of instances.

Recommendation—We recommend that the firm revise its new client information form, as it indicated it would in its prior letter of response, to provide an appropriate place for the managing owner’s signature evidencing approval. In addition, an account number should not be assigned to a new client until this form has been completed.

Independence

Finding—The firm’s quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence. However, the firm does not require any specific documentation of such resolutions. We noted that there was no documentation supporting such resolutions.

Recommendation—We recommend that the firm amend its quality control policies and procedures to require documentation of the resolution of independence questions.

Supervision

Finding—Our review disclosed that on several audit engagements the firm’s standard programs for testing related-party transactions and subsequent events were not used as required by firm policy. However, we were able to satisfy ourselves that sufficient audit procedures had been performed in these areas.

Recommendation—The firm should reemphasize its policy of using the standard programs as required by its auditing and accounting manual.

Finding—The firm’s quality control policies and procedures require the use of standard audit and work programs. However, in one recently acquired office of the firm, representing a small portion of the firm’s practice, the firm’s standard audit and work programs have not been used consistently.

Recommendation—The firm should reemphasize the need to comply with its policies and procedures. In addition, an owner from another office should be assigned the responsibility for training personnel of the acquired office in the use of the firm’s standard programs.

Continuing Professional Education

Finding—The firm’s quality control policies, and the membership requirements of the section, require each professional to obtain at least 20 hours of continuing education annually and at least 120 hours every three years. However, the firm does not have adequate procedures to monitor compliance with this policy. As a result, our review disclosed that five of the firm’s sixty professionals had not participated in the required number of hours of qualifying continuing education.

Recommendation—The firm should make sure that the five professionals referred to above obtain a sufficient number of continuing education hours to meet the section’s annual and three-year requirements for its current educational year.

PRP § 3400.98
The foregoing matters were considered in determining our opinion set forth in our report dated September 15, 19___, and this letter does not change that report.

Johnson & Co. [for review by a firm]

or

William Brown Team Captain [for review by an association sponsored or committee appointed review team]
Appendix B

Sample Letter of Comments for the AICPA Peer Review Program

[Letterhead]

September 15, 19___

[Should correspond with date of report]

To the Owners
Able, Baker & Co.
or
To John B. Able, CPA

We have reviewed the system of quality control for the accounting and auditing practice of [Name of Firm] (the firm) in effect for the year ended June 30, 19___, and have issued our report thereon dated September 15, 19___ (which was qualified as described therein).* This letter should be read in conjunction with that report.

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

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

Matters That Resulted in a Qualified Report*

Supervision

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

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

Matters That Did Not Result in a Qualified Report*

Supervision

Finding—Our review disclosed several engagements for which financial statement disclosures were missing or incomplete. None of the missing or incomplete disclosures represented significant departures from professional

* Include these captions only when the report is qualified or adverse.
** These phrases should be used only if the reviewed firm is a member of the private companies practice section.
standards, but in each case we noted that the firm had not complied with its policy requiring completion of a financial reporting and disclosure checklist.

**Recommendation**—The firm should comply with its policy requiring completion of its financial reporting and disclosure checklist. We recommend that the firm emphasize the importance of this policy to all personnel in its training sessions.

**Consultation**

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

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

The foregoing matters were considered in determining our opinion set forth in our report dated September 15, 19____, and this letter does not change that report.

Johnson & Co. [for review by a firm]

or

William Brown Team Captain [for review by an association sponsored or committee appointed review team]
## Appendix C

### Checklist for Reviewing Drafts of Letters of Comments

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<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Yes</th>
<th>No *</th>
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<tbody>
<tr>
<td>1.</td>
<td>Do the first three paragraphs and the last paragraph of the letter of comments (LOC) conform with the standard LOC included in the applicable standards?</td>
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<tr>
<td>2.</td>
<td>If the report is qualified or adverse, is the first section of the report entitled “Matters that Resulted in a Qualified (Adverse) Report?”</td>
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<td>3.</td>
<td>Are headings included for each quality control element on which there is a comment?</td>
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<td>4.</td>
<td>Is each finding and recommendation clearly captioned?</td>
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<td>5.</td>
<td>Are findings written with a systems orientation?</td>
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<tr>
<td>6.</td>
<td>Are findings caused by the same quality control deficiency grouped into a single comment?</td>
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<td>7.</td>
<td>Are general terms used to indicate frequency of occurrence rather than specific numbers?</td>
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<td>8.</td>
<td>Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?</td>
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<td>9.</td>
<td>Are comments written in a succinct, but complete manner (without excessive details)?</td>
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<td>10.</td>
<td>Are the findings clearly understandable to someone not familiar with the specific engagement and functional area findings?</td>
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<td>11.</td>
<td>Are findings written in a specific enough manner so that the comment will not automatically be repeated on the next review?</td>
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<td>12.</td>
<td>Have personal preference items been excluded from the letter?</td>
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<tr>
<td>13.</td>
<td>Is the letter of comments free of all references to specific technical standards?</td>
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<td>14.</td>
<td>Have third-party practice aids been referred to in general terms?</td>
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<td>15.</td>
<td>Has the “loop been closed” in all cases in which performance deficiencies are mentioned?</td>
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<tr>
<td>16.</td>
<td>Are repeat comments clearly identified?</td>
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* All “no” answers should be resolved before the letter of comments is finalized.
.101 Appendix D

Examples of Poorly Written Letter of Comments Items

This appendix contains illustrative examples of poorly written items included in letters of comments. Each example includes a critique of the deficiencies noted. Reviewers should focus on the points included in the critiques. It is important to remember that a well-written letter of comments enhances the peer or quality review documents.

.102 Example 1:

In one audit engagement, the firm’s files did not contain a letter from the client’s attorney as to litigation, etc. In another engagement, attorney responses were dated several weeks prior to the date of the auditor’s report.

The firm should add a step to its audit programs to require documentation of the procedures performed to obtain updated responses to attorney letter replies received prior to the end of field work.

Critique of Example 1:

- The finding does not indicate what the firm’s quality control policies and procedures do or do not require regarding the obtaining of letters of inquiry from a client’s attorney. Further, the finding does not describe the implications of the deficiencies noted.

- The finding is written in an engagement-oriented format rather than a systems-oriented format. As described in the guidance material, the letter of comments should include comments regarding the design of the reviewed firm’s system of quality control or its compliance with that system.

- The finding cites the exact number of instances noted rather than using general terms to indicate frequency, such as “in some instances,” “frequently,” or “an isolated case.”

- The example does not include captions highlighting the findings and recommendations.

Suggested Wording for Example 1:

Finding—The firm’s quality control policies and procedures require obtaining letters of inquiry from a client’s attorney for all audit engagements. However, we noted instances where the attorney’s letters had not been obtained or were dated several weeks prior to the auditor’s report. Subsequent to our review, the firm has requested and received the missing attorney letters and received updated responses for the attorney letters that were dated prior to the date of the auditor’s report.

Recommendation—The firm should reemphasize the importance of complying with its policy of obtaining attorney letters for all auditing engagements. In addition, during their review of engagement working papers, supervisory personnel should ensure that attorney letters are dated as close to the completion of fieldwork as is practicable in the circumstances. The owners of the firm should ensure that these documents are reviewed as part of their review of working papers.

.103 Example 2:

In a few instances, the financial statements did not disclose the carrying basis of property, plant and equipment, and whether or not any of the assets were donated.

Critique of Example 2:

- The finding does not have a recommendation.
The finding does not indicate the effect on the financial statements, if any, as a result of the deficiencies noted, and it is not clear why the finding is important.

The finding does not indicate the likely cause of the deficiency (for example, inadequate financial statement disclosure and reporting checklist or lack of appropriate owner review).

Suggested Wording for Example 2:

Finding—The firm’s quality control policies and procedures require the completion of a reporting and disclosure checklist for all audit engagements. However, on several engagements reviewed, the financial statements did not include all the disclosures required by generally accepted accounting principles. None of the missing disclosures were of enough significance to make the financial statements misleading.

Recommendation—The firm should reemphasize the importance of thoroughly completing its comprehensive financial statement reporting and disclosure checklists. The owners should carefully review the report and disclosure checklist as part of the final financial statement review.

.104 Example 3:

Finding—Every engagement we reviewed was determined to be in compliance in all material respects with professional standards. However, in a number of engagements reviewed, there were inadequate disclosures regarding related party matters.

Recommendation—All material related party transactions should be disclosed in the financial statements as required by FASB Statement No. 57.

Critique of Example 3:

The finding and recommendation do not indicate what the systems implications of the deficiency are. Why were the disclosures inadequate? Were firm policies followed?

Generally, a finding should include a conclusion as to the effect, if any, the deficiencies had on the financial statements reviewed.

Recommendations that essentially say “follow professional standards,” as in the example, are not helpful to the firm. Instead, recommendations should address the underlying cause of the deficiency.

The recommendation refers to a specific technical pronunciation without a clear indication of the nature of the standard.

Suggested Wording for Example 3:

Finding—The firm’s policies and procedures require the completion of financial statement disclosure checklists for all audit, review and full disclosure compilation engagements. However, our review disclosed several instances where the financial statements did not include all the disclosures required by generally accepted accounting principles, particularly in the area of related party matters. The incomplete disclosures were not of such significance as to make the financial statements misleading.

Recommendation—The firm should reemphasize its policy of using disclosure checklists on all full disclosure engagements. The owners should carefully review the disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with staff the disclosure requirements for related party transactions.

PRP § 3400.104
Example 4:

Finding—The firm’s procedural documents do not provide guidance with respect to audit sampling procedures, or analytical review procedures.

Recommendation—The firm should include, in its accounting manual, guidance on audit sampling procedures and analytical review procedures.

Critique of Example 4:

- The finding does not describe the engagement deficiencies, if any, resulting from this design deficiency.

Suggested Wording for Example 4:

Finding—The firm’s quality control policies and procedures provide for audit sampling procedures and analytical review procedures. However, the firm has not established procedures for performance or the documentation required for these areas. As a result, we noted instances where the firm performed nonstatistical sampling, but did not document its considerations. In addition, on several engagements reviewed, there was no documentation of analytical review procedures. Through discussions with firm personnel, we were able to satisfy ourselves that adequate procedures had been performed.

Recommendation—The firm should revise its policies and procedures to require documentation of sample selections and evaluation of sampling results. This can be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards. In addition, the firm should revise its policies to require specific analytical review procedures and the documentation of such procedures.

Example 5:

Finding—The firm does not use planning programs and, as a result, planning procedures are not always fully documented in engagement working papers. On certain of the engagements reviewed, there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other audit planning considerations.

Recommendation—The firm should develop or obtain a planning program for use on each engagement.

Critique of Example 5:

- The finding does not indicate what the system does or does not require regarding audit planning. Also, the finding does not indicate whether the reviewer believes sufficient planning procedures were performed on the engagements reviewed.

- A recommendation for a “canned” program or checklist is not particularly helpful, as it is too specific. Rather, the recommendation should indicate that the firm should establish policies or procedures to ensure that planning considerations are documented, such as by developing or obtaining a planning checklist that deals with the areas cited. The recommendation might also note that proper planning may reduce audit time overall.
Suggested Wording for Example 5:

Finding—The firm’s quality control policies and procedures require documentation of audit planning considerations. The firm does not require the use of planning programs, checklists, or other appropriate means of documenting such planning considerations. During our review, we noted there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other planning considerations. However, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

Recommendation—The firm should establish policies and procedures to ensure that planning considerations are documented, such as by obtaining or developing a planning checklist for use on audit engagements.

Example 6:

Finding—The firm’s quality control policies and procedures require all working papers to be reviewed by someone at a higher, or at least the same, level.

Recommendation—The firm should reemphasize to its professional personnel the importance of reviews. This requirement could be added to the owner’s review checklists to ensure compliance.

Critique of Example 6:

- The finding does not indicate that the firm did not comply with its policy and, if not, whether this resulted in any engagement deficiencies.

Suggested Wording for Example 6:

Finding—On several of the engagements reviewed, we noted that a review by an owner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance as to make financial statements misleading.

Recommendation—The firm should comply with its policy of having a second owner who is not associated with the engagement review each engagement. To ensure compliance with this policy, the firm should require that the second owner initial the report control sheet before the report is issued.
.108 Appendix E
Guidance for Determining Whether a Finding Appeared in the Letter Issued in Connection With a Prior Peer
or Quality Review

Paragraph .24(o) states—

If any of the matters to be included in the letter of comments were included in the letter
issued in connection with the firm’s previous peer or quality review, this fact ordinarily
should be noted in describing the matter.

A finding would be considered a repeat finding if the deficiencies noted during the current review are caused by
the same quality control system weakness noted in the letter issued in connection with the reviewed firm’s prior
peer or quality review. To determine whether a finding is a repeat finding, the team captain should read the prior
letter of comments and letter of response and evaluate whether the actions outlined in the response have been
implemented as promised. If the promised actions have been implemented and the same engagement deficiencies
are occurring (such as incomplete or omitted disclosure deficiencies), the team captain should, with the reviewed
firm’s assistance, determine the weakness in the firm’s quality control system, which could be causing the
deficiencies to continue to occur.

.109 Example 1:

This finding was included in the firm’s previous review.

Prior Finding—The firm’s quality control policies and procedures require the firm to complete a reporting and
disclosure checklist on all engagements. Our review discovered that these checklists were not completed on all
engagements. Disclosure deficiencies were noted in such areas as related-party transactions and lease commit-
tments. None of these disclosures were considered significant departures from professional standards.

Prior Recommendation—The firm should reemphasize its policies regarding the completion of a comprehensive
disclosure checklist on all accounting and auditing engagements. These checklists should be completed by a
member of the engagement team, reviewed by the engagement owner, and retained with the engagement working
papers.

Prior Response—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure
checklist on all accounting and auditing engagements. These checklists will be completed by a member of the
engagement team, reviewed by the engagement owner, and retained with the engagement working papers.

Results on Current Review

In the performance of the current year’s review, the team captain noted the firm personnel are completing a
disclosure and reporting checklist on all accounting and auditing engagements. However, some disclosure
deficiencies are still noted in the areas of deferred taxes and concentration of credit risk.

Comparison of Prior and Current Deficiencies

In this example, the firm reinforced its policy on the use of a disclosure checklist as promised. Therefore, the team
captain must look for other weaknesses in the firm’s quality control system which could be causing the disclosure
deficiencies to continue to occur.

The team captain noted that concentration of credit risk was covered by a recent pronouncement and that deferred
taxes was a complex area that often requires special training. Upon further investigation, the team captain also
found that the firm has taken the continuing education required by the state board of accountancy and the AICPA,
but most of the classes did not relate to accounting and auditing. Therefore, the team captain concluded that the
cause of the disclosure deficiencies is a weakness in the firm’s professional development policies because those
policies do not require that sufficient education be taken on new accounting pronouncements and on specialized
areas. Since this was not noted in the prior review, the finding in the current review would not be considered a repeat finding.

Example 2:

This finding was included in the firm's previous review.

Prior Finding—The firm's policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity, but did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance as to make the auditor's report misleading.

Prior Recommendation—The firm should reemphasize its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

Prior Response—In a meeting held on October 15, 19___, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters.

Results on Current Review

In the performance of the current year's review, the review team confirmed that the meeting of October 15 took place and that the firm's consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as a change in the method of recording inventory and pooling of interests, were not reported appropriately.

Comparison of Prior and Current Deficiencies

Upon further research, the team captain discovered that the staff members researched these issues internally, but failed to consult with the partner designated as the consultant for the issues involved as required under the firm's quality control system. Since the current engagement deficiencies are caused by the same weakness in the firm's quality control system noted in the prior review, this finding would be considered a repeat finding in the current review.
.111 Appendix F

Case Studies for Writing Letters of Comments

Reviewers are often asked to revise letters of comments because they describe engagement deficiencies without identifying the deficiencies in the firm's quality control system that caused them. If the reviewer does not understand the underlying cause, he or she cannot make recommendations to the firm that will reduce the likelihood of the deficiencies recurring.

Because the exact same engagement deficiencies may come from completely different causes, reviewers should make sure findings and recommendations are based on careful thought and discussions with the owners of the firm about their underlying cause(s). To determine the underlying cause(s) of engagement deficiencies, a reviewer sometimes needs to expand testing in an area. This expanded testing will also allow the reviewer to determine whether a deficiency is isolated or pervasive.

In evaluating engagement deficiencies, the review team should consider all aspects of a firm's quality control system and try to determine the cause(s) of those deficiencies. In some cases the cause(s) of certain deficiencies from a quality control perspective may not be clear and may appear to be the result of a combination of factors. When the most likely cause(s) of the deficiencies cannot be readily identified, the review team should hold further discussions with the owners of the reviewed firm. Together, the reviewed firm and the review team will be able to identify the cause(s) of the deficiencies and develop a plan for reducing the likelihood of their recurrence.

The following case studies are designed to provide review teams with examples of the process of searching for the underlying cause(s) of engagement deficiencies.

.112 Case Study One

Facts About the Reviewed Firm: ABC, P.C. is a CPA firm with two owners, one manager, and four other professional staff. The manager has six years of experience and the other four professionals have from six months to two years of experience.

Prior Peer Review Findings: On the firm's previous peer review, it received an unqualified report with a letter of comments citing a failure to comply with the firm's policies and procedures for documenting analytical review procedures and the engagement team's assessment of risk and materiality considerations. The reviewed firm's responses to the recommendations of the review team appeared to address the deficiencies adequately and appeared to be comprehensive and feasible in the circumstances.

Current Peer Review Engagement Findings: The firm performed only one audit engagement subject to government auditing standards, which was an audit of a not-for-profit organization receiving Federal awards and subject to the audit requirements set forth in OMB Circular A-133. As required, this engagement was included in the scope of the peer review and the review team noted the following engagement deficiencies:

1. A third-party developed audit program for governmental engagements was included in the working papers, but it was not properly initialed or dated at the completion of the procedures.
2. The firm did not issue a report on compliance with general requirements as required by OMB Circular A-133.
3. During the audit, the firm noted the client had made a non-qualifying expenditure and had failed to establish a drug-free workplace policy. These are areas of noncompliance with general requirements.
4. The firm issued a report on irregularities and illegal acts even though no such events were discovered during the performance of the audit.
During the discussions of the above matters with the manager on the engagement, the review team learned the following:

1. The firm borrowed a governmental audit program from another CPA firm in the same building, since this was the only engagement the reviewed firm performed pursuant to Government Auditing Standards.

2. The non-qualifying expenditure was a political contribution of $25 to a candidate running for a local office. Because one of the owners of the CPA firm served as treasurer of the candidate's political campaign, the manager decided the contribution did not need to be mentioned in a report.

Current Peer Review Quality Control System Finding: While the manager agreed the proper reports had not been issued and indicated the owner in charge of the engagement had pressured him into completing the engagement before the owner left on vacation, the review team explored further the underlying causes of the engagement deficiencies with the firm's owners. During this exploration, it learned:

1. The owner in charge of the engagement ("engagement owner") had no prior government auditing experience.

2. Because this was the only engagement performed by the firm under Government Auditing Standards and because the engagement owner was trying to keep the engagement costs to a minimum, only the manager on the engagement had taken any governmental accounting or auditing related continuing professional education and that training only consisted of a four-hour self-study update on Government Auditing Standards.

3. Even though the firm's consultation policies require that an adequate up-to-date library be maintained, the firm's library did not contain copies of Government Auditing Standards, the Single Audit Act, OMB Circular A-133, or a third-party auditing or accounting manual for the performance of engagements pursuant to governmental auditing standards.

4. The firm accepted the audit engagement because one of the owners did not want to lose a business opportunity to a competitor and had indicated at a local chamber of commerce function that the firm performed audits of not-for-profit organizations receiving federal awards.

Possible Letter of Comment Items Resulting From This Case: Depending on the conclusions reached as to the underlying cause of the deficiencies, the related finding and recommendation included in the letter of comments might be one of the following—

Consultation

Finding—The firm's policies and procedures require an adequate reference library be maintained as a resource for performing engagements in specialized areas and for solving problems identified on engagements. During our review, we noted that the firm did not have copies of various government auditing standards even though it had a client, the audit of which is subject to those standards. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm should designate an individual within the firm to ensure that its library, or access to such a library, provides adequate resources for performing engagements in all areas in which the clients of the firm practice and for solving accounting and auditing problems identified on engagements.

Professional Development
Finding—The firm’s policies require all professional staff to comply with applicable state board of accountancy and AICPA continuing professional education requirements. While the professional staff was in compliance with this policy, sufficient courses were not taken in the area of government accounting and auditing to comply with Government Auditing Standards, a new practice area for the firm. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm’s policies and procedures for professional development should be revised to ensure that firm personnel participate in training courses in all areas in which the firm practices and to monitor compliance with the professional education requirements outlined in Government Auditing Standards.

Acceptance of Clients

Finding—The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance. During our review, we noted the firm accepted an engagement subject to Government Auditing Standards when it had no prior experience in that area and its library did not include materials related to such engagements. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation for Improvement—The firm should follow its quality control policies for client acceptance and not accept engagements in specialized industries unless it obtains the expertise necessary to perform that engagement in accordance with professional standards. This matter should be monitored during the firm’s next inspection.

.113 Case Study Two

Facts About the Reviewed Firm: XYZ & Associates is a CPA firm with three owners and four professional staff. Two of the owners perform primarily tax work, but they also perform engagements involving compilation reports on complete sets of financial statements (“full disclosure compilations”) and compilation reports on financial statements that omit substantially all disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting (“compilations that omit disclosures”). The third owner, who also prepares some tax returns and performs some compilation engagements, is responsible for all of the firm’s audit and review engagements. Each owner is responsible for reviewing his own work.

The firm uses practice aids developed by a third-party provider and has identified in its quality control policies and procedures those forms and checklists that are required and those that are optional. The firm’s accounting and auditing practice is comprised of 15 audits and reviews for 2,100 hours and 65 compilations for 1,100 hours.

Prior Peer Review Findings: On the firm’s previous review, it received an unqualified report with a letter of comments citing the firm’s failure to carefully complete reporting and disclosure checklists and the incomplete or omitted disclosures noted on the engagements reviewed. (The specific omissions were not identified.)

Current Peer Review Engagement Findings: The review team noted the following deficiencies on the engagements reviewed:

1. On the two full-disclosure compilation engagements selected for review, various disclosures were consistently omitted, including: terms of operating leases; concentrations of credit risk relating to bank balances and trade accounts receivable; interest and income taxes paid when the indirect method was used for the cash flow statement; and noncash financing and investing activities for the cash flow statement.
2. On the audit and review engagements selected for review, only a few isolated and minor disclosures were missed.

Even though the omitted disclosures on the compilation engagements did not make any of the financial statements misleading, the review team believed they reflected a weakness in the firm’s quality control system for which the underlying cause needed to be identified. Since the review team believed it needed further information to identify the underlying cause, it selected three additional full-disclosure compilations—one for each owner. The review team found similar missing disclosures on the compilations performed by the two owners primarily responsible for the tax practice (who were also the owners on the two compilations initially reviewed) and no disclosure deficiencies on the compilation engagement performed by the owner responsible for the audit practice.

Current Quality Control System Findings: Based on a comparison of the original engagements selected for review and the additional engagements selected, the review team determined that the firm had complied with its policies and procedures requiring the completion of financial statement reporting and disclosure checklists on all engagements involving a report on a full set of financial statements. While a review of the completed reporting and disclosure checklists indicated each of the omitted disclosures was on the checklist (though some were referred to only briefly), the owners’ responses were inappropriately marked “N/A” or “yes.”

Based on the expanded scope and discussions with the owners, the review team was able to determine that the two owners primarily responsible for the tax practice were not reviewing the disclosure checklists carefully. The two owners also admitted they were not familiar with the disclosure requirements that were omitted and had not reviewed the disclosure checklists carefully because such review was time consuming. Even though all CPAs in the firm had met their state board of accountancy continuing professional education requirements, the review team noticed that these two owners had taken no training courses on accounting and auditing topics during the last three years.

Possible Letter of Comment Item Resulting From This Case: The review team determined the finding was not a repeat from the firm’s prior review because the underlying cause of the engagement deficiencies was different and, after discussing possible solutions with the firm’s owners to correct the weakness identified, decided the following supervision finding and recommendation should be included in the letter of comments:

**Supervision**

*Finding*—The firm’s quality control policies and procedures require all accounting and auditing engagements to be properly supervised and reviewed. Our review noted that certain compilation engagements involving a complete set of financial statements were reviewed by members of the firm whose primary practice area was not financial statement engagements and those individuals had not participated in sufficient accounting courses during the period. The financial statements for these engagements did not include all of the disclosures required by professional standards, particularly in the areas of concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading.

*Recommendation*—The firm should revise its policies and procedures to require a preissuance review of full-disclosure compiled financial statements by a qualified individual. In addition, all firm members responsible for reviewing financial statement engagements should periodically take appropriate courses on accounting and auditing topics.

If the review team had determined that the owners had participated in a reasonable number of training courses on accounting and auditing topics and observed during its review that the disclosure checklists on compilation engagements were haphazardly completed, the review team would probably have concluded the matter was a repeat finding from the prior review and the following supervision finding and recommendation would have been included in the letter of comments:

**Supervision**

PRP § 3400.113 Copyright © 1995, American Institute of Certified Public Accountants, Inc.
Finding—The firm’s quality control policies and procedures require accounting and auditing engagements to be properly supervised and reviewed. During our review, we noted on several full-disclosure compilation engagements that, though a owner reviewed the firm’s report and the accompanying financial statements, the disclosure checklist required by firm policy on such engagements was inappropriately completed. As a result, the financial statements of those engagements did not include all of the disclosures required by professional standards, particularly in the areas of concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading. A similar finding was reported in the firm’s prior peer review.

Recommendation—The firm should revise its policies and procedures to require a preissuance review of full-disclosure compiled financial statements by a designated individual. In addition, guidance should be provided to firm members reminding them to diligently complete all disclosure checklists.

.114 Case Study Three

Facts About the Reviewed Firm: LMNOP, S.C., is a CPA firm with three owners and three other professional staff with experience ranging from one to five years. Two of the three owners are responsible for one audit each, while all the owners are responsible for compilation and review services. All owners and staff are significantly involved in tax preparation and related services, which is a sizable portion of the firm’s practice.

Prior Peer Review Findings: This is the firm’s initial peer review.

Current Peer Review Engagement Findings: While performing the review, the review team noted lack of documentation for the following areas of planning on the audit engagement selected for review:

- consideration of matters affecting the industry.
- preliminary judgment of materiality.
- analytical review procedures.
- internal control structure.
- assessment of risk.

Although the planning area of the audit program was initialed and dated, few working papers existed to support the audit program steps. In addition, documentation of a few other areas of the audit was also deficient and little documentation existed for the owner’s review of the working papers.

After discussing the above findings with the owner and staff on the engagement and reviewing the firm’s written responses to the matter for further consideration forms detailing the procedures performed by the firm, the review team determined that, though the firm had performed inadequate testing of internal control, sufficient planning procedures had been performed in all other areas, though those procedures were not documented. The review team was also able to conclude that similar deficiencies would be encountered on the other audit performed by the firm.

Current Peer Review Quality Control System Findings: The review team believes the firm’s quality control policies and procedures are adequately designed for a firm of its size and that the library is appropriate since it contains, among other things, appropriate auditing and accounting practice aids purchased from a third-party provider. When asked by the review team about the reason for the lack of documentation and the inadequate testing of internal control, the owner indicated that they had encountered time constraints when completing the audit.

Possible Letter of Comment Items Resulting From This Case: The review team concluded a supervision comment such as the following should be included in the letter of comments because the owner’s review of the engagement was not adequate to identify the documentation and performance deficiencies:
Supervision

Finding—The firm’s policies and procedures require a owner to review audit working papers, financial statements, and auditors’ reports. However, the firm’s planning working papers do not include documentation of the firm’s preliminary judgement about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests. Through discussion with firm personnel, we were able to satisfy ourselves that appropriate planning procedures in the above areas had been performed. However, inadequate testing was performed of the internal control structure in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on the engagement.

Recommendation—The owner responsible for the engagement should review and approve the engagement planning procedures. In addition, the owner should perform a more diligent review of the working papers, financial statements, and auditor’s report, and should document that review in the working papers.

The nature of this letter of comment finding and recommendation would differ entirely if—

1. The review team had learned during further discussions with the professional staff on the audit engagements that the staff was uncertain about how to perform the procedures outlined in the planning area of the audit program and the working papers necessary to support the work performed; or

2. The firm had provided its owners and professional staff with a substantial number of training courses in the tax area during the last three years, but few courses in the accounting area and none in the audit area, and the owners had indicated that training courses in the audit area were not beneficial to the firm because the firm only performs the two audits to fill in during its slower periods.

If these conditions had been encountered, the review team might have determined that a more thorough review of the working papers by the owners would not necessarily have found the performance deficiencies or the need for additional planning documentation. As a result, the review team might have decided the letter of comments should contain a finding for a design deficiency in the firm’s quality control system related to professional development as follows:

Professional Development

Finding—The firm’s quality control policies require all professional staff to participate in forty hours of continuing professional education each year Even though the firm’s personnel met these requirements, the courses taken did not provide the firm’s personnel with sufficient information about auditing pronouncements and related procedures. As a result of inadequate training, on the audit engagement reviewed, the firm’s planning working papers did not include documentation of the firm’s preliminary judgments about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests. In addition, inadequate testing was performed of the internal control structure in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on that engagement.

Recommendation—The firm should revise its quality control policies to require firm personnel to participate in an appropriate amount of professional development courses relating to all the areas in which they perform services. In addition, the firm should assign an individual the responsibility of monitoring the professional development courses taken during the year to ensure that appropriate courses have been taken in all of the areas in which the firm practices.
Facts About the Reviewed Firm: AEIO & U is a CPA firm with four owners and ten other professional staff. The firm's practice is predominantly accounting and auditing. While most professional staff perform some tax services, one owner of the firm performs only tax services and supervises two seniors and one manager who perform only tax work.

Prior Peer Review Findings: Each of the firm's prior two reviews resulted in the issuance of an unqualified report without a letter of comment.

Current Peer Review Engagement Findings: While performing the review, the review team noted several engagements where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, the deficiencies noted did not make the financial statements misleading. On each engagement on which disclosure deficiencies were noted, the firm's required reporting and disclosure checklist was inappropriately completed. Disclosure deficiencies were noted on engagements supervised by all of the firm's owners.

Current Quality Control System Finding: The review team believes the firm's quality control policies and procedures are suitably designed and appropriately modified throughout the years for changes in the firm's practice. The firm has adopted practice aids developed by a third-party provider for use on engagements and provided appropriate training to its accounting and auditing personnel on the use of the materials.

The firm belongs to an association of CPA firms and its annual inspections were performed by qualified members of that association. However, an inspection was not performed during the year of the peer review.

Though it appears on the surface that the firm has not complied with its supervision policies and procedures, upon investigation of the underlying cause of the deficiencies, the review team learned:

1. The background information provided by the firm during the planning stage of the review stated the firm's accounting and auditing hours grew by 15% while its total number of professional staff remained constant.

2. Interviews with owners of the firm involved in accounting and auditing revealed the firm's recent growth occurred predominantly in the not-for-profit area, a firm specialty. Rather than hire additional personnel during the firm's busy season, the firm assigned the two tax seniors to supervise the work on a few audit and review engagements. The firm also assigned one audit senior responsibility for supervising the field work on two audits of large not-for-profit entities even though that individual had minimal experience auditing such entities.

When the scope of the review was expanded to review two additional engagements prepared by the staff discussed above, similar deficiencies were found.

Possible Letter of Comments Item Resulting From This Case: The review team concluded that the deficiencies noted during the review were the result of the assignment of inexperienced personnel to engagements and that the following finding and recommendation should be included in the letter of comments:

Assigning Personnel to Engagements

Finding—The firm's quality control policies and procedures require that the owners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience to perform the work assigned to them. However, on some engagements reviewed, the personnel below the owner level did not appear to have adequate experience to handle their assigned tasks. As a result, we noted several instances where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, none of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should carefully consider the degree of technical training and proficiency required in the circumstances prior to making personnel assignments. When it is necessary to assign a
person to a key role on an engagement who does not have sufficient experience to handle all the work assigned to him or her, the owner in charge of the engagement should document how the engagement team will compensate for this deviation from firm policy.

**Case Study Five** (This is a case study pertaining to a large firm. It includes helpful guidance on dealing with merged and acquired practices regardless of the size of the firm.)

*Facts About the Reviewed Firm: B & B is a four-office CPA firm with the following characteristics:*

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<td>2</td>
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The firm’s main office, office A, was founded in 1972. Offices B, C, and D were acquired through mergers in 1984, 1989, and 1993, respectively. The most recent merger was effective July 1, 1993, the start of the firm’s current peer review year. There were extensive financial negotiations prior to each of the mergers and both sides performed limited due diligence procedures with respect to the quality of the other firm’s accounting and auditing and tax practices. During the peer review year ended June 30, 1994, approximately 45 percent of the firm’s charged hours were in accounting and auditing, approximately 45 percent in tax, and the remainder in consulting. The firm’s only SEC client is a mature, low risk company requiring about 400 hours to audit.

*Prior Peer Review Findings:* On the firm’s previous peer review, it received an unqualified report with a letter of comment citing failure to comply with the firm’s policies and procedures for documenting oral communications to audit committees required under SAS 61, “Communication With Audit Committees.”

*Current Peer Review Engagement Findings:* The peer review covered all the owners in offices A and D. The review of office A included five audits, one subject to Government Auditing Standards and the firm’s sole SEC client, two reviews, and one compilation. The peer review results in office A were excellent; the review team found only a few isolated and unrelated minor documentation deficiencies.

The review of office D included six audits (two for each owner), two reviews, and one compilation. On two of the audits the review team concluded the engagements did not comply with generally accepted auditing standards in all material respects, and on one of the review engagements, the review team concluded the engagement did not comply with the performance standards of the Statements on Standards for Accounting and Review Services in all material respects. In addition, the work on all of the other engagements reviewed had deficiencies.

The three engagements that did not conform with professional standards in all materials respects resulted from the following:

1. On an audit of a manufacturing company, only negative confirmation requests were circulated even though none of the three conditions for sending negative confirmations set forth in Section 330.20 of AICPA Professional Standards were met.

2. No legal letter was sent on one audit even though outside counsel had been consulted during the year in connection with potential litigation. Management stated in its management representation letter that the company was not a plaintiff or a defendant in any litigation matters, and that it was not aware of any unasserted claims or assessments.

3. A management representation letter was not obtained on one of the review engagements.

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The review team expanded its scope to look at the legal letters and confirmation procedures on five additional audits in office D. In each case, positive confirmations were used appropriately and legal letters were obtained, except on one audit where the client did not have any legal counsel and management represented in writing that the company was not involved in any litigation and was not aware of any unasserted claims or assessments. The review team also looked at the client representation letters on three additional review engagements, and noted that an appropriate letter was obtained in each case.

The firm immediately performed, under the direction of the Director of Accounting and Auditing in office A, the necessary additional procedures on the three engagements and concluded that the financial statements and the firm’s report were appropriate in each case. The review team reviewed the additional work and agreed with the firm’s conclusions in each case.

Current Quality Control System Finding: The results of the firm’s inspection programs performed during each of the two years between peer reviews were excellent and covered the work of all owners. The firm does not conduct an inspection in a peer review year.

After extensive discussions with firm management in an attempt to discover the reasons for the poor quality work in office D, the review team learned the following:

1. The firm does not have any formal written policies for assessing the quality of the accounting and/or auditing practice of a potential merger or acquisition candidate prior to a merger or acquisition.

2. The merger negotiations focused almost exclusively on financial matters, and the firm performed limited due diligence procedures with respect to the quality of the work of the firm that became office D.

3. The only orientation office D personnel received regarding the firm’s policies and procedures was a two-hour session four days after the effective date of the merger. That session primarily covered administrative matters.

4. There was no interchange of personnel on engagements between offices A, B, and C on the one hand and office D on the other.

5. No one from the three previously existing offices of the firm had performed any preissuance reviews of the working papers, financial statements, or reports issued by office D from the time of the merger until the peer review.

Possible Letter of Comments Item Resulting From This Case: Three of the nine engagements reviewed from the recently merged-in office D were not in conformity with professional standards and additional procedures had to be performed on them. The engagement deficiencies resulted from the lack of adequate policies for the evaluation of potential merger candidates and the failure to adequately train staff from the merged practice. If the review team concludes that an unqualified peer review report can be issued, the letter of comments might include the following finding and recommendation in the supervision area:

Supervision

Finding—The firm has very limited quality control policies and procedures for assessing the quality of the accounting and auditing practice of a potential merger or acquisition candidate and for providing reasonable assurance that personnel from a merged or acquired practice will comply with professional and firm standards. The firm merged with a smaller firm at the beginning of the peer review year. The peer review noted three instances where engagements in the merged office did not comply with generally accepted auditing standards or the Statements on Standards for Accounting and Review Services. In each case, the omitted procedures were performed promptly, and the client’s financial statements and the firm’s report were deemed to be appropriate.

Recommendation—We recommend that the firm establish written quality control policies and procedures to provide reasonable assurance that personnel from accounting and auditing practices acquired by
merger or acquisition will comply with professional and firm standards. Such policies and procedures should include:

1. Performing appropriate due diligence procedures, including reviewing a sample of the potential merger or acquisition candidate’s accounting and auditing engagements, prior to the merger or acquisition.

2. Providing training programs for the personnel from merged or acquired practices that cover the firm’s policies and procedures for accounting and auditing engagements, and where necessary, professional standards.

3. Assigning personnel from existing offices to accounting and auditing engagements performed by personnel from the merged or acquired practice, and vice versa.

4. Requiring the firm’s Director of Accounting and Auditing or designee to perform detailed preissuance reviews of the working papers, financial statements, and reports for some or all of the merged office’s accounting and auditing engagements.

.117 Case Study Six

Facts About the Reviewed Firm: A and B is a CPA firm with four owners and sixteen professional staff.

Prior Peer Review Findings: The firm’s prior peer review was unqualified without a letter of comment.

Current Peer Review Engagement Findings: During the review, the review team noted the reviewed firm issued a review report which included a final paragraph stating a lack of independence. The engagement file included a Review Engagement Work Program that contained a step related to independence and cautioned that a review report could not be issued if the firm was not independent.

Current Quality Control System Finding: After further investigation the review team learned the following:

1. The owner responsible for the engagement signed off as reviewing the engagement, but performed only a cursory review of the staff’s work.

2. The staff member on the engagement had been with the firm three years, but worked almost exclusively in the tax area.

3. The staff member had taken only ten hours of continuing education in accounting and auditing subjects during the past three years.

4. The other work supervised by this owner contained no major deficiencies. However, the quality of the owner’s work was not up to the same standard as that of the other owners in the firm.

Because the specific underlying cause of the deficiency had not been determined, the review team held extensive discussions with the firm’s owners and, as a result, concluded the following:

1. The firm had adequate policies and procedures for independence. The firm communicated its policies and procedures to the staff, independence confirmations were obtained and all questions resolved. All other engagements where the firm noted a lack of independence were compilation engagements.

2. The firm had adequate policies and procedures for assigning personnel to engagements. The firm attempts to use tax staff on low risk audit and accounting engagements to aid in their overall development, and assigns an audit owner or audit manager to oversee their work.

3. The firm had adequate policies and procedures for professional development. All staff were in compliance with the professional development requirement. However, the tax staff generally had less than sixteen hours of professional education in accounting and auditing over a three-year period.
4. The failure on the review engagement was due to a lack of supervision by the owner even though the firm had adequate policies and procedures for supervision.

Possible Letter of Comment Item Resulting From This Case: The review team and firm agreed that the following finding and recommendation were appropriate:

Supervision

Finding—The firm's quality control policies and procedures require preparation and completion of work programs that appropriately request the preparer to affirm the firm's independence. However, the firm issued a review report stating a lack of independence, which is not allowed by professional standards. The work program was inappropriately signed off, and the review process failed to note this error. The firm has recalled the review report and issued a compilation report.

Recommendation—The firm has adequate policies and procedures in this area. However, a more thorough review of the work program by the staff and the owner would have prevented the violation of professional standards. We recommend that the firm hold in-house training sessions to review the work programs and checklists currently utilized. The training session should be attended by all personnel involved in the accounting and auditing process.
PRP Section 3500

Guidance for Writing Letters on Monitoring Actions by Outside Parties

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Introduction

.01 A peer review report, letter of comments, and the firm’s response to all matters discussed in the report and letter of comments may be accepted by a report acceptance body with the understanding that the firm will allow the team captain or another party acceptable to the committee (hereinafter referred to collectively as “outside party”) to monitor the implementation of certain corrective actions (“monitoring procedures”) taken by the firm. In such situations, the reviewed firm will have to engage an individual outside of the firm to perform those monitoring procedures and to allow the outside party to communicate the conclusions reached during the performance of the procedures to the report acceptance body.

.02 The purpose of these guidelines is to provide assistance to outside parties engaged to monitor one or more corrective actions taken by a reviewed firm as a result of a peer review —other than an accelerated peer review. If the report acceptance body requires the reviewed firm to have an accelerated peer review, or the firm elects to have such an accelerated review as an alternative to completing other actions required by the report acceptance body, then the reviewed firm and the reviewer should adhere to the “Standards For Performing and Reporting on Peer Reviews” (see PRP section 3100).

Objectives

.03 The objective of the monitoring actions is to determine whether the firm took one or more actions it agreed to as a result of a peer review and is not intended to be a substitute or a replacement for a full scope peer review. While the procedures performed may not be sufficient to enable the outside party to express an opinion on whether the corrective action achieved the goal for which it was designed or whether the action has been implemented in all required situations, they should be sufficient to provide the outside party with reasonable assurance about whether the firm implemented the action(s) to which it agreed in the situations tested.

.04 At the conclusion of the monitoring procedures, the outside party should issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures. The letter should be sufficiently comprehensive—but concise—to enable the report acceptance body to conclude on the reviewed firm’s implementation of the corrective action(s) being monitored. Since the letter will not be included in a public file, it should be written as a private communication between the outside party and the report acceptance body. However, the outside party should send the reviewed firm a copy of the communication.

General Guidelines

.05 The outside party should obtain a clear understanding of the corrective actions agreed to by the firm and the monitoring procedures that need to be performed by obtaining a copy of the firm’s most recent peer review report, the related letter of comments, the firm’s letter of response, and the acceptance letter describing the monitoring actions required by the report acceptance body.

.06 The outside party should design and perform appropriate procedures to provide him or her with sufficient information to evaluate the reviewed firm’s compliance with the corrective action(s) being monitored. In certain circumstances, the outside party may wish to confirm the appropriateness of the procedures to be performed with the staff of the entity administering the review.

.07 The outside party should summarize the procedures performed and the conclusions reached as a result of those procedures, and discuss those conclusions with the reviewed firm. During the discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any deficiencies noted during the monitoring procedures.

.08 The outside party should send a letter to the report acceptance body describing the procedures performed and conclusions reached. The letter should be issued on the letterhead of the outside party’s firm, addressed to the report acceptance body with a copy to the reviewed firm, and include the following elements—

a. A description of the monitoring procedures required by the report acceptance body.

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b. A description of the representations made by the reviewed firm regarding the corrective actions taken by the firm since its most recent peer review.

c. A description of the procedures performed by the outside party.

d. A summary of the outside party’s findings, including a description of any representations made by the reviewed firm regarding planned corrective actions and the outside party’s comments on the appropriateness of those actions. The outside party may consider recommending additional corrective actions or monitoring procedures if he or she believes the findings reveal continued weaknesses in the reviewed firm’s quality control system.

e. A statement that the letter is intended for limited distribution to the report acceptance body and the reviewed firm, and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm’s peer review.

Illustrative Letters

.09 The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.
.10 Exhibit A

Sample Letter on an Outside Party’s Revisit

[Outside Party’s Firm Letterhead]

September 13, 19XX

[Name and Address of the Report Acceptance Body]
Dear Committee Members:

This letter is written to assist [Reviewed Firm’s Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]’s acceptance of its 19XX peer review report, letter of comments, and response thereto.

The [Name of the Report Acceptance Body] accepted the firm’s 19XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to

- Review the planning for the firm’s 19XX inspection program in advance.
- Revisit the firm at the end of its 19XX inspection to review the findings (with emphasis on those items noted in the letter of comments) and the corrective actions taken on the findings noted, and
- Provide a written communication on the firm’s inspection to the Committee by September 30, 19XX.

Prior to the firm performing its 19XX inspection, I performed the following procedures:

- Reviewed a copy of the firm’s 19XX peer review report, the accompanying letter of comments and the firm’s response thereto, and the acceptance letter describing the required actions.
- Reviewed the firm’s inspection planning documentation.

I revisited the firm on September 9, 19XX, after the completion of its 19XX inspection. During that revisit, I performed the following procedures—

- Discussed the corrective actions described in its letter of response with the firm to determine if the actions have been fully implemented.
- Reviewed the firm’s inspection report and underlying documentation, including the engagement review checklists prepared during the inspection.
- Reviewed the working papers of selected engagements included in the inspection and any changes in the firm’s quality control materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 19XX peer review.
- Discussed the inspection findings and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.

Listed below are the results of the procedures I performed and a description of the firm’s representations regarding planned corrective actions.

Letter of Comment Finding No. 1

This finding related to the firm’s failure to issue accountants’ compilation reports on monthly computer generated financial statements. The firm’s letter of response stated that the firm would revise its quality control policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

PRP § 3500.10

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Revisit Results

The firm adopted a policy requiring the owners to ensure that an accountant’s report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the cash basis of accounting was used. This deficiency resulted because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on SSARS engagements and did not have any third-party reference material. In addition, the firm had not taken any training courses relating to SSARS engagements.

Planned Corrective Actions

The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in preparing and/or reviewing compilation engagements will take 8 hours of CPE in SSARS within the next month. To assess the effectiveness of using the new checklist, the firm represented that it plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

Letter of Comment Finding No. 2

The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test investments and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed tests of the investments which I reviewed before the firm’s peer review documents were presented to the Committee for acceptance. The firm’s letter of response indicated it would obtain an industry specific audit program and update its library to include the AICPA Audit and Accounting Guide for Audits of Employee Benefit Plans.

Revisit Results

The firm did not obtain a copy of the ERISA Audit and Accounting Guide and my review of the ERISA audit showed an industry specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained and alternative procedures were not performed. The owner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year’s working papers.

Planned Corrective Actions

The firm represented that the ERISA Audit and Accounting Guide and the ERISA industry specific audit program have now been ordered from the AICPA. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I have reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting ERISA engagements to 8 hours of training in ERISA audits.

Letter of Comment Finding No. 3

The firm performed several audits subject to the requirements of the Single Audit Act. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the owner responsible for the engagement was not in compliance with the
"Yellow Book" CPE requirement. The firm performed the omitted audit procedures and issued the missing reports which I reviewed prior to the Committee’s acceptance of the firm’s peer review documents. The firm’s letter of response stated that the owner would take the necessary CPE.

Revisit Results

My review of a Single Audit Act engagement performed subsequent to the firm’s peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE. However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity’s internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

Planned Corrective Actions

The firm represented that it plans to conduct a training session for owners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct owners to focus on documentation during their review process and will amend the owner review checklist to add this focus.

Summary

The firm’s inspection appears to have been comprehensive, suitably designed and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, I believe the Committee should further monitor the firm’s corrective actions since the results of these procedures revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party, who is sufficiently experienced in the industries in which the firm’s clients operate, to perform a preissuance review of all of the firm’s audit engagements in specialized industries.

This letter is intended solely for the information and use of the [Name of the Report Acceptance Body] and the owners of [Reviewed Firm’s Name], and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm’s 19XX peer review.

Sincerely,

[Outside Party’s Signature]

cc: [Reviewed Firm’s Name]
.11 Exhibit B

Sample Letter on an Outside Party’s Review of a Subsequent Engagement

[Outside Party’s Firm Letterhead]

July 21, 19XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist [Reviewed Firm’s Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]’s acceptance of its 19XX peer review report, letter of comments, and response thereto.

The [Name of the Report Acceptance Body] accepted the firm’s 19XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm’s peer review, and communicate to the Committee in writing on the results of that review by July 31, 19XX.

I performed the following procedures—

a. Reviewed a copy of the firm’s 19XX peer review report, the accompanying letter of comments and the firm’s response thereto, and the acceptance letter describing the required actions.

b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA “Checklist for Review of Audit Engagements of Not-for-Profit Organizations.”

c. Discussed with the firm the findings and the corrective action plan, and evaluated the feasibility of the firm achieving its plan.

While performing the above procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm’s letter of comments on the most recent peer review also cited disclosure deficiencies; however, they were in other areas. The firm represented that it will conduct a “refresher” training session on disclosures for all owners and professional staff and also will instruct owners to focus on disclosures during their review process.

Because only minor deficiencies were found on the engagement I reviewed, I believe no further monitoring of the firm by the [Name of the Report Acceptance Body] is necessary at this time.

This letter is intended solely for the information and use of the [Name of the Report Acceptance Body] and the owners of [Reviewed Firm’s Name], and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm’s 19XX peer review.

Sincerely,

[Outside Party’s Signature]

cc: [Reviewed Firm’s Name]

AICPA Peer Review Program Manual  PRP § 3500.11
In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so creates a presumption that the review has not been performed in conformity with the standards governing the program.

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PRP Section 4100

Instructions to Firms Having an On-Site Peer Review

General

.01 An on-site peer review is required for all firms that perform one or more audits of historical or prospective financial statements because of the public interest in the quality of such audits and the importance to the accounting profession of maintaining the quality of those services. On-site peer reviews are administered by state CPA societies that elect to participate in the program. The appropriate society will contact your firm before the beginning of the calendar year in which your firm is scheduled to have an on-site review to begin to make arrangements for the conduct of the review. Well before then, you should have read the applicable sections of Standards for Performing and Reporting on Peer Reviews issued by the AICPA Peer Review Board, as well as these instructions and the quality control policies and procedures questionnaire and review guidelines applicable to your size firm.

.02 These instructions have been designed for reviews conducted by committee-appointed review teams. However, they should be helpful in reviews conducted by firms or with the assistance of an association of CPA firms. Also, completing the procedures listed under “Prior to the Review” should expedite the conduct of the review.

.03 It is the reviewed firm’s responsibility to be certain that the quality control policies and procedures in effect for the period covered by the review have provided the firm with reasonable assurance that it has met its responsibility to provide accounting and auditing services that conform with professional standards. Also, firms should carefully evaluate the effectiveness of the way in which quality control policies and procedures are communicated to all professional personnel and should determine that appropriate action is taken when inspection or other procedures reveal design or compliance deficiencies.

Prior to the Review

.04 Identify the individual—usually an owner—who will be responsible for acting as a liaison with the review team.

.05 Review and sign the engagement letter for the review.

.06 Agree with the team captain on the date the review will commence, which must not be later than the date established by the administering entity, the 12-month period to be covered, and the anticipated exit conference date.

.07 Submit the following to the team captain as soon as possible:

a. A completed quality control policies and procedures questionnaire. (There is one form of questionnaire for sole practitioners without professional staff—defined as CPAs and those expected to seek that status—and one for all other firms.)

b. Relevant manuals, checklists, etc., if practicable.

c. A list of accounting and auditing engagements prepared in the form shown in the Appendix to these instructions.
d. A list of the firm’s professional personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.

e. Other information requested by the team captain.

.08 Based on that information, the team captain will make a preliminary advance selection of engagements for review. Complete profile sheets on those engagements and assemble all working papers, including the permanent files and reports, before the review begins.

.09 Review the applicable guidelines for review of quality control policies and procedures that will be followed by the team captain and make sure documentation that the team captain will ask for will be readily available. Examples of such documentation are noted in the following list, which is not all-inclusive:

a. Independence confirmations, documentation of independence of correspondents, and documentation supporting the resolution of independence questions

b. Personnel files

c. CPE records

d. Documentation regarding consultations with outside parties

e. Dues paid to the AICPA and, if applicable, the private companies practice section

During the Review

.10 Make sure firm personnel will be available for discussion with the reviewer(s) as necessary. The reviewers will endeavor to have these discussions and interviews without disrupting the firm’s operations.

.11 The team captain will ask your firm to respond to “Matter for Further Consideration” forms. The firm should provide a thorough written response to those forms to avoid any misunderstanding about its quality control policies and procedures or the circumstances of the individual engagement.

.12 Arrange for appropriate owners and staff to attend the exit conference. If the firm disagrees with any of the reviewer’s findings, those differences should be discussed as they arise. Any differences of opinion that have not been previously discussed should be covered during the exit conference.

After the Review

.13 Obtain the report and letter of comments, if any, from the team captain. These documents should be delivered to the firm within 30 days of the date of the exit conference.

.14 Prepare a letter of response to the report and letter of comments and submit all three documents to the administering entity within 30 days of the date the report and letter of comments are received from the team captain. As indicated in the Standards, the letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review.

.15 The state CPA society administering the review will not make the report on the review available to the public. The firm itself may do so, if it wishes. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that it has been accepted by the administering entity.

.16 After the peer review documents are accepted on a review of a member of the private companies practice section, a copy of the report, letter of comments, and the reviewed firm’s response thereto, and the letter indicating that the committee has accepted the report will be forwarded to the public files of the Division for CPA Firms and will be retained in those files until completion of the subsequent review.
### Appendix A

**AN ILLUSTRATION OF A LIST OF ACCOUNTING AND AUDITING CLIENTS**

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<th>Client Code</th>
<th>Period Covered</th>
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<th>Initial Eng.</th>
<th>Industry **</th>
<th>Name of Partner</th>
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**Total** | **1960**

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* Denotes the level of service by using the codes set forth on page 4104.
** Denotes the type of industry by using the codes set forth on page 4105.
On-Site Peer Reviews for Firms That Perform Audits

Codes for Level of Service

A1 Audit of SEC Registrant
A2 Audit Performed Under *Government Auditing Standards* Issued by the U.S. General Accounting Office, including engagements subject to OMB Circular A-128 and OMB Circular A-133
A3 Audit Performed Under the Employee Retirement Income Security Act of 1974 (ERISA)
A4 Audit of Financial Institution With Over $500 Million in Total Assets
A5 Other Audits of Historical Financial Information
A6 Examination of Prospective Financial Information
A7 Other Special Audits—Identify

R Review of Historical Financial Statements

C Compilation of Historical Financial Statements With Disclosures
CO Compilation of Historical Financial Statements Omitting Substantially All Disclosures
CP Compilation of Prospective Financial Information
## Industry Codes

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<th>Code</th>
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<tr>
<td>105</td>
<td>Advertising</td>
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<tr>
<td>110</td>
<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
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<tr>
<td>115</td>
<td>Airlines</td>
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<tr>
<td>120</td>
<td>Auto Dealerships</td>
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<td>125</td>
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<td>Broadcasting and Entertainment</td>
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<td>135</td>
<td>Brokers and Dealers in Securities</td>
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<td>Brokers and Dealers in Commodities</td>
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<td>Casinos</td>
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<td>Colleges and Universities</td>
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<td>Common Interest Realty Associations</td>
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<td>Computer Software Development and Sales</td>
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<td>Employee Benefit Plans (including ERISA audits)</td>
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<td>Personal Financial Statements</td>
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<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
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<td>Other (Describe)</td>
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[The next page is 4201.]
Quality Control Policies and Procedures
Questionnaire for Sole Practitioners With No Professional Staff

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

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

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

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

<table>
<thead>
<tr>
<th>Response, Including Reference to Firm Documents</th>
</tr>
</thead>
</table>

A. Independence

1. Do you adhere to the independence rules, regulations, interpretations, and rulings of the—
   a. AICPA?
   b. State CPA society?
   c. State board of accountancy?
   d. State accountancy laws?
   e. SEC and other regulatory agencies?

2. Have you, during the year under review, identified any independence problems with respect to audit or accounting clients?

3. Briefly describe how you do or would resolve independence questions by answering the following—
   a. What sources do you or would you consult?
   b. Have you found it necessary to consult with outside parties on independence matters within the last year?
   c. In what circumstances do you or would you document the resolution of an independence question?

4. Do you have any engagements where you act as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
5. If the answer to (4) above is "yes"—
   a. Do you confirm the independence of such other firm(s)?
   b. Do you do so in writing?
   c. Do you do so annually?

6. Have you had during the year under review any accounts receivable from clients that may have taken on some of the characteristics of loans and, therefore, may impair your independence?

B. Consultation
   1. During the year under review, have you sought advice from outside parties to resolve questions involving professional standards or specialized industry practices?

   2. How do you determine when to consult with outside parties and with whom to consult?

   3. Describe the extent to which you document consultations with outside parties by answering the following—
      a. Do you document all such consultations?
      b. If the answer to (a) is "no," describe the circumstances in which you would document a consultation.
      c. Does your documentation always, usually, or never include the following information:

         • Description of the issue?
         • The client's position, if any?
         • The possible alternatives?
         • The sources consulted (both written materials and people)?
         • The position indicated by those sources?
         • Your conclusion?
         • Your underlying rationale?
4. Does your library include current editions of—
   a. AICPA Professional Standards?
   b. AICPA industry audit guides relevant to your practice?
   c. FASB pronouncements?
   d. GASB pronouncements, Government Auditing Standards (the "Yellow Book"), and other government audit guides relevant to your practice?

C. Supervision

1. Do you follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (for example, in an audit and accounting manual)?

2. If the answer to (1) is "no," briefly describe the procedures you perform in planning audit and accounting engagements in practice, including the information you obtain and consider and when you do your planning. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.

3. Is a written audit program used on all audit engagements?

4. Do you use written guidance materials regarding the following matters? If so, indicate whether you developed it or obtained it from an outside source, and name the source.
   a. Consideration of internal control structure in planning and performing an audit.
   b. Assessment of control risk.
   c. Consideration of audit risk and materiality when planning and performing an audit.
   d. Audit sampling techniques.
   e. Degree of reliance to be placed on analytical procedures.
   f. Form and content of working papers.
   g. Other audit and accounting matters, in the form of an audit and accounting manual.
5. Do you use any standardized forms, checklists, or questionnaires? If so, attach a list and describe the types of engagements on which you use them. (Note that the reviewer will want to inspect these forms during the review.)

6. Do you use correspondents for audit or accounting engagements? If "yes," describe how (in writing or orally and when this is done) instructions are given to such correspondents and the extent to which you review their work.

7. Have you purchased audit or accounting clients from another CPA during the year under review?

D. Professional Development

1. Are you in compliance with the continuing professional education requirements of the following:
   a. Board(s) of accountancy in state(s) in which you are licensed?
   b. The AICPA?
   c. Your state CPA society (if applicable)?
   d. The Private Companies Practice Section (if applicable)?
   e. Government Auditing Standards—the "Yellow Book" (if applicable)?

2. If the answer is "no" to any of the above, indicate how and when you plan to correct the situation.

3. Briefly describe how you plan the allocation of your CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.

4. Do you maintain CPE records and course materials?

E. Acceptance and Continuance of Clients

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

2. Did you terminate any audit or accounting relationships during the year under review?
F. Inspection

1. Have you performed a timely, formal, documented inspection of your quality control policies and procedures for each year since your last peer or quality review (or for the year preceding the review year if you have not previously had a review) and, if so, have you retained the summary or report for the team captain's review?

2. Have you taken appropriate corrective action in response to the findings on your most recent quality review or peer review?

[The next page is 4301.]
PRP Section 4300

Quality Control Policies and Procedures
Questionnaire for Firms With Two or More Professional Staff

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

.02 The reviewed firm should respond directly with “yes,” “no,” or “N/A” answers and briefly describe, where appropriate, the policies and procedures they have in effect that relate to the questions asked. Where appropriate, firms should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.
AICPA Peer Review Program
QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR FIRMS WITH TWO OR MORE PROFESSIONAL STAFF

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

A. Independence

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
   a. AICPA?
   b. State CPA society?
   c. State board of accountancy?
   d. State accountancy laws?
   e. SEC and other regulatory agencies?

2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).

3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? For example, does the firm—
   a. Circulate new client lists to all personnel?
   b. Post new clients on a staff bulletin board?
   c. Report new clients at staff meetings?
   d. Use other (describe) means?

4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that—
a. The individual is familiar with the firm's independence policies and procedures?

b. Prohibited investments are not held and were not held during the period?

c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?

5. Who is responsible for resolving independence questions:

a. The engagement owner?

b. The managing owner?

c. Someone else (identify individual)?

6. In connection with the resolution of independence questions—

a. In what circumstances must the question and its resolution be documented?

b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?

c. What sources are or would be consulted?

d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?

7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?

8. If the answer to (7) above is "yes"—

a. Does the firm confirm the independence of such other firm(s)?

b. Does it do so in writing?

c. Does it do so annually?

9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm's independence?

a. Who does this?
On-Site Peer Reviews for Firms That Perform Audits

b. How often is it done?

c. Have there been any such situations during the year under review?

B. Assigning Personnel to Engagements

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—

a. The basis on which assignments are made. For example, some firms make assignments on an engagement by engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.

b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.

c. Who is responsible for making staff assignments on a day-to-day basis.

d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.

e. How far in advance assignments are typically made.

2. Does the firm require the following to have experience appropriate to the engagement:

a. Staff?

b. Owner in charge of the engagement?

c. Concurring reviewer (if applicable)?

C. Consultation

1. Have certain areas or specialized situations been identified as requiring consultation? If "yes," attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).

2. Does the firm designate any individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.

3. How are differences of opinion between personnel and specialists resolved?
4. During the year under review, did the firm seek consultation from internal or external sources?

5. How does the firm determine when to consult with outside parties and with whom to consult?

6. Describe the extent to which the firm expects consultations with outside parties to be documented. Where is such documentation maintained?

7. Does the firm’s library include current editions of—
   a. AICPA Professional Standards?
   b. AICPA industry audit guides relevant to the firm’s practice?
   c. FASB pronouncements?
   d. GASB pronouncements, Government Auditing Standards (the “Yellow Book”) and other government audit guides relevant to the firm’s practice?

8. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS50? If yes, indicate where such guidance can be found. Also, indicate whether the firm issued any such reports during the year under review.

D. Supervision

1. Does the firm follow documented procedures for planning audit and accounting engagements and, if so, where are those procedures found (e.g., in an audit and accounting manual)?

2. If the answer to (1) is “no,” briefly describe the procedures the firm performs in planning audit and accounting engagements in practice, including the information obtained and considered and the nature, timing and extent of partner involvement in the planning process. Also describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.

3. Is a written audit program used on all audit engagements? If yes, who is required to review and approve the audit program, and how is this approval documented?
4. Indicate whether the firm has written guidance materials regarding the following matters. If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.

   a. Consideration of internal control structure in planning and performing an audit.
   b. Assessment of control risk.
   c. Consideration of audit risk and materiality when planning and performing an audit.
   d. Audit sampling techniques.
   e. Degree of reliance to be placed on analytical procedures.
   f. Form and content of working papers.
   g. Other audit and accounting matters, in the form of an audit and accounting manual

5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)

6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA Professional Standards, AU section 311.14)?

   a. Are those procedures documented? Where?
   b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?

7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.

8. Does the firm have documented procedures for review by supervisors and owners of the reports, financial statements, and working papers for —

   a. Audits?
   b. Reviews?
c. Compilations?

9. If the answer to (8) is "yes," indicate where those procedures are found. If the answer is "no," briefly describe the procedures that are followed, including how the review process is documented.

10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If "yes," indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.

11. Has the firm merged with or acquired any other firm since the date of its last quality review or in the last three years? If "yes"—
   a. When did such merger or acquisition take place?
   b. How did the firm evaluate the quality of a potential merger/acquisition candidate?
   c. Did the firm acquire any professional personnel in the merger/acquisition?
   d. Did the firm acquire and retain any new office or offices in the merger/acquisition (indicate the locations of any such offices)?
   e. Have the personnel of the merged/acquired firm adopted the firm's quality control policies and procedures?

E. Hiring

1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.

2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.

3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.
4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

F. Professional Development

1. Are all professional personnel in compliance with the continuing professional education requirements of—
   a. Board(s) of accountancy in state(s) where they are licensed?
   b. The AICPA (if applicable)?
   c. The state CPA society (if applicable)?
   d. The Private Companies Practice Section (if applicable)?
   e. Government Auditing Standards—the ”Yellow Book” (if applicable)?

2. If the answer is “no” to any of the above, attach a list of those personnel who are not in compliance and indicate the firm’s plan for correcting the situation.

3. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.

4. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:
   a. Self-study courses ...................... ____%
   b. In-house training programs—
      (i) Developed by the firm ................ ____%
      (ii) Obtained from outside vendors ..... ____%
   c. State society or AICPA programs ........ ____%
   d. Other programs .......................... ____%

5. Who maintains CPE records and course materials?
6. How are professional personnel made aware of changes in accounting and auditing standards and in the firm’s technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

G. Advancement

1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?

2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?

3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
   a. When are these evaluations performed?
   b. Are they documented?
   c. Are standard evaluation forms used?

4. Are owners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?

5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the firm.

H. Acceptance and Continuance of Clients

1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm’s ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.

2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.

3. Were any audit or accounting client relationships terminated by the firm during the year under review?
I. Inspection

1. Has the firm performed a timely, formal, documented inspection of its quality control policies and procedures for each year since its last peer or quality review (or for the year preceding the review year if the firm has not previously had a review)? If “yes,” briefly describe—

   a. The scope of the program, including who carries it out.

   b. The materials used, such as questionnaires, programs, and checklists.

   c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.

2. Has the firm taken appropriate corrective action in response to the findings on its most recent quality review or peer review?

   [The next page is 4401.]
PRP Section 4400

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

.01 To assist the reviewer in performing his or her work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm's quality control policies and procedures and for testing compliance with them. The suggested procedures for review of a sole practitioner with no professional staff are set forth in PRP section 4400.

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

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

.04 The suggested procedures include procedures for testing compliance with the membership requirements of the private companies practice section (PCPS) in the event the firm being reviewed is a member of the PCPS.
### AICPA Peer Review Program

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

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<th>Suggested Review Procedures</th>
<th>Findings, Including Extent of Testing</th>
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#### A. Independence

1. Interview the CPA and—
   
   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—
      
      (i) Business relationships with clients or with nonclients that have investor or investee relationships with clients.
      
      (ii) Loans from financial institutions.
      
      (iii) Family members in director or manager positions with client entities, including not-for-profit organizations.
      
      (iv) Past-due fees for professional services.
      
      (v) Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management.

   c. Inquire about any situations where the CPA has elected *not* to be independent and whether the CPA withdrew from the audit or accounting engagement or appropriately modified his or her report.

   d. Inquire into the procedures the CPA follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence matters are considered in the practice.

2. Identify by review of files or by interviewing the CPA all situations in which independence questions arose during the year being reviewed and consider whether the resolution of such questions appears appropriate.

3. If sufficient testing is not performed as part of the engagement reviews, determine, on a test basis, that the CPA has complied with his or her policies and procedures and with the requirements of generally accepted auditing standards (GAAS) for obtaining appropriate assurance of the independence of other firms engaged to perform segments of engagements for which the CPA is the principal auditor or accountant.
Guidelines for Review of Quality Control Policies and Procedures—Sole Practitioners

B. Consultation

1. Interview the CPA and—
   a. Review the CPA’s responses to the consultation section (part B) of the questionnaire and clarify those responses, if necessary.
   b. Inquire into and evaluate the CPA’s views concerning when outside consultation should take place and the sources that should be used.

2. Identify by review of appropriate documentation (see questionnaire, B.1, B.2, and B.3) or by interviewing the CPA situations in which consultation has taken place and evaluate whether the advice appears appropriate and whether the CPA responded appropriately to that advice.

3. Inspect the CPA’s library for his or her audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the CPA’s specialties and that loose-leaf services are filed on a timely basis.

C. Supervision

1. Interview the CPA and review his or her responses to the supervision section (part C) of the questionnaire and clarify those responses, if necessary.

2. Evaluate the CPA’s procedures for planning audit and accounting engagements.

3. If the CPA uses quality control materials (e.g., an audit and accounting manual or standardized forms, checklists, and questionnaires) developed by another accounting firm or some other third party, consider whether the materials are suitably designed. (The reviewer also may wish to obtain the most recent report of the design of those materials.)

4. Review and evaluate the following quality control materials developed by the CPA and those materials developed by other parties on which there is no separate report on the review of the suitability of their design—
   a. Consideration of internal control structure in planning and performing an audit.
   b. Assessment of control risk.
   c. Consideration of audit risk and materiality when planning and performing an audit.
d. Audit sampling techniques.

e. Degree of reliance to be placed on analytical procedures.

f. Form and content of working papers.

g. Other audit and accounting matters, in the form of an audit and accounting manual.

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.

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.

6. Evaluate the CPA’s procedures for the supervision and control of work, if any, performed by correspondents.

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.

D. Professional Development

1. Review the CPA’s continuing professional education records and determine that those records are adequate to demonstrate compliance with the requirements of the—

   a. Board(s) of accountancy in state(s) in which the CPA is licensed.

   b. AICPA.

   c. State CPA society (if applicable).

   d. Private companies practice section (if applicable).

   e. Government Auditing Standards—the “Yellow Book” (if applicable).

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—

   a. The allocation of CPE hours among accounting and auditing, tax, and other topics.
E. Other Matters

1. Read the CPA’s responses to the sections of the questionnaire on acceptance and continuance of clients (part E) and inspection (part F) to obtain a general understanding of the CPA’s quality control policies and procedures with respect to those two elements of quality control. However, no specific compliance tests of these two broad functions are required, provided that the team captain concludes that the review of selected engagements and interviews with the CPA will provide an adequate means of identifying failures, if any, to achieve the objectives inherent in those two elements of quality control.

2. Discuss with the CPA plans, if any, the CPA may have for recruiting professional personnel and review with the CPA the quality control considerations related to the hiring of additional personnel as well as the implications of that for the CPA’s quality control system.

F. Membership Requirements (for PCPS member firms only)

1. Obtain reasonable assurance that the firm’s form of organization and name comply with Rule 505 of the AICPA Code of Professional Conduct.

2. Obtain reasonable assurance that the CPA is a member of the AICPA by confirming membership with the Division’s staff, or examining invoices and cancelled checks.

3. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting.

4. Review copies of the firm’s annual reports to the Section and note any apparently inappropriate information that needs to be corrected.

5. Review documentation evidencing payment of the applicable section’s dues for the current year.
PRP Section 4500

Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Professional Staff

.01 To assist the review team in performing its work, suggested review procedures have been developed for evaluating the appropriateness of the reviewed firm’s quality control policies and procedures and for testing the firm’s compliance with them. The suggested procedures for reviews of firms with two or more professional staff are set forth in PRP section 4500.

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

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

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

a. Corroborating the information provided to the reviewer in the questionnaire completed by the reviewed firm; and

b. Determining whether the firm’s policies and procedures have been effectively communicated to the individual(s) responsible for the particular quality control function.

.05 The suggested procedures include procedures for testing compliance with the membership requirements of the private companies practice section (PCPS) in the event that the firm being reviewed is a member of the PCPS.
### AICPA Peer Review Program

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

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<th>Suggested Review Procedures</th>
<th>Findings, Including Extent of Testing</th>
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</table>

### A. Independence

1. Compare the firm’s independence policies and procedures with professional and regulatory requirements.

2. Interview the appropriate individual\(^1\) and—

   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

      (i) Business relationships with clients or with nonclients that have investor or investee relationships with clients.

      (ii) Loans from financial institutions.

      (iii) Family members in director or manager positions with client entities, including not-for-profit organizations.

      (iv) Past-due fees for professional services.

      (v) Accounting or advisory services that have evolved into situations where the firm has assumed some of the responsibilities of management.

   c. Inquire about how frequently the staff is informed of changes in the entities to which the firm’s independence rules apply.

   d. Inquire about any situations where the firm is not independent and whether the firm withdrew from the audit or accounting engagement or appropriately qualified its report.

---

\(^1\) The “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.
Guidelines for Review of Quality Control Policies—Two or More Professional Staff

Suggested Review Procedures

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.

4. Review the written independence confirmations obtained by the firm for a sample (indicate number ____) of professional personnel, if required by firm policy.

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.

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.

B. Assigning Personnel to Engagements

For firms with up to ten professionals (defined as CPAs and those expected to seek that status) during the majority of the review year, the team captain would ordinarily decide not to complete this section of the questionnaire. This would be appropriate, according to the Standards, when the team captain concludes that the review of selected engagements and interviews with firm personnel will provide an adequate means of identifying failures, if any, to achieve the objectives of this element of quality control. However, when significant deficiencies are noted in the engagements reviewed, the team captain may need to perform some or all of the procedures described in this section in order to identify corrective actions the firm should consider taking. Moreover, in all reviews, as noted in the Standards, the review team should obtain a general understanding of the reviewed firm’s quality control policies and procedures with respect to this element of quality control; ordinarily, that understanding can be obtained from reading the reviewed firm’s responses to the quality control policies and procedures questionnaire.
### On-Site Peer Reviews for Firms That Perform Audits

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<th>Suggested Review Procedures</th>
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1. Interview the appropriate individual and—

   a. Review the firm’s responses to the assigning personnel section (part B) of the questionnaire and clarify those responses, if necessary.

   b. Inquire about the criteria and other factors considered in making personnel assignments and about the relative priorities assigned to:

      (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.

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.

3. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate. (See separate interview guidelines.)

### C. Consultation

1. Interview the appropriate individual and—

   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.)

D. Supervision

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:

   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.
On-Site Peer Reviews for Firms That Perform Audits

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<td>e. Degree of reliance to be placed on analytical procedures.</td>
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<td>f. Form and content of working papers.</td>
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<tr>
<td>g. Other audit and accounting matters, in the form of an audit and accounting manual.</td>
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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.

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.

6. Evaluate the firm’s procedures for review of the engagement reports, financial statements, and working papers.

7. Evaluate the firm’s procedures for the supervision and control of work, if any, performed by other offices or correspondents.

8. Evaluate the firm’s procedures for resolving differences of opinion among members of an engagement team.

9. Review and evaluate the firm’s policies and procedures for:
   a. Evaluating the quality of a potential merger candidate.
   b. Training and integrating the professional personnel of the merged-in practice in the reviewed firm’s quality control policies and procedures.

10. Inquire of the appropriate individual about any unusual accounting or auditing problems related to clients obtained in a merger during the year under review and evaluate the appropriateness of the firm’s assessment and treatment of such matters.
11. Interview selected staff to confirm their awareness of the firm's supervision policies and procedures. (See separate interview guidelines.)

E. Hiring

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.

1. Interview the appropriate individual and—

   a. Review the firm's responses to the hiring section (part E) of the questionnaire and clarify those responses, if necessary.

   b. Inquire into how the firm plans its personnel needs and whether the hiring program satisfies those needs.

   c. Ask how potential hires are identified and informed about the firm.

2. Select a sample (indicate number ____ ) of new hires, including those joining the firm through mergers or at supervisory levels, obtain each individual's personnel file, and—

   a. Determine whether the background information and other documentation required by firm policy was obtained.

   b. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience. If not, ascertain from other documentation or from inquiry why an exception was made.

   c. Select one or more of these new hires for an interview. (See separate interview guidelines.)

F. Professional Development

1. Interview the appropriate individual and—

   a. Review the firm's responses to the professional development section (part F) of the questionnaire and clarify those responses, if necessary.
b. Evaluate the adequacy of the actions being taken to correct situations involving professional personnel, if any, who are not in compliance with CPE requirements (see questionnaire, F.1).

c. Discuss the factors considered in planning the CPE program and evaluate the appropriateness of the plan for the year under review, including the allocation of CPE hours by subject area and the nature of the CPE taken (see questionnaire, F.2 and F.3).

2. Review the firm's CPE records on a test basis and consider whether they appear adequate to demonstrate compliance with the plans for the firm's CPE program and with the CPE requirements of—

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<tr>
<td>b.</td>
<td>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).</td>
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<td>c.</td>
<td>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).</td>
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a. Board(s) of accountancy in state(s) where the firm’s professional staff are licensed.

b. AICPA (if applicable).

c. State CPA society (if applicable).

d. Private companies practice section (if applicable).

e. Government Auditing Standards—the ‘Yellow Book’ (if applicable).

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—

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<td></td>
<td>a. The developer is qualified.</td>
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<td>b. The course is technically accurate, current, and contributes to the professional competence of the attendees.</td>
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<td>c. The instructor is qualified.</td>
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<td></td>
<td>d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable.</td>
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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.)

G. Advancement

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.

1. Interview the appropriate individual and—
   a. Review the firm's responses to the advancement section (part G) of the questionnaire and clarify those responses, if necessary.
   b. Inquire into the firm's underlying philosophy with respect to advancement, termination, and partner responsibilities.
   c. Inquire as to how the firm monitors the firm's compliance with its policies and procedures.

2. Review job descriptions and advancement criteria and evaluate whether they are reasonable for the firm.

3. For a sample of professional personnel (indicate number _______), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy.

4. Evaluate the effectiveness of the method used to evaluate owners and whether they fulfill the responsibilities assigned to them. In that connection, consider interviewing selected owners to assist in evaluating the effectiveness of the method used.

5. Interview selected staff to determine their awareness of the firm's advancement policies and procedures and whether they are followed. (See separate interview guidelines.)

H. Acceptance and Continuance of Clients

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.

1. Interview the appropriate individual and—
On-Site Peer Reviews for Firms That Perform Audits

Suggested Review Procedures

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<tr>
<td>a. Review the firm's responses to the acceptance and continuance section (part H) of the questionnaire and clarify those responses, if necessary.</td>
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<td>b. Inquire into the circumstances surrounding the termination, if any, of audit or accounting relationships during the year under review.</td>
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<td>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.</td>
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2. Evaluate the appropriateness of the firm's policies and procedures for the acceptance and continuance of clients, including procedures to ensure compliance with professional standards on communications between predecessor and successor accountants.

3. Review the documentation maintained for selected acceptance and continuance decisions and evaluate whether the firm is complying with its own policies and procedures and with the requirements of professional standards.

4. Interview selected staff and determine whether the firm's policies on client continuance decisions have been adequately communicated to the staff. (See separate interview guidelines.)

I. Inspection

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.

1. Interview the appropriate individual and—

   a. Review the firm's responses to the inspection section (part I) of the questionnaire and clarify those responses, if necessary.

   b. Discuss the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures.

   c. Discuss how the firm monitors whether the corrective actions planned as a result of an inspection are actually carried out.
2. Review the available documentation supporting annual inspections conducted since the last quality review, if any, and evaluate whether—

   a. The inspectors had sufficient training and experience.

   b. The inspection coverage included:

      (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.

      (iii) Reviewing an appropriate number and type of engagements for compliance with professional standards.

   c. The inspection findings are appropriately summarized and documented.

   d. The materials used in carrying out the inspection, such as questionnaires, programs, and checklists, are adequate.

   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.

3. Consider whether inspection findings for the year under review correlate with the findings on the quality 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.)

J. Membership Requirements (for PCPS firms only)

1. Obtain reasonable assurance that the firm’s form of organization and name comply with Rule 505 of the AICPA Code of Professional Conduct.
2. Obtain reasonable assurance that each owner of the firm residing in the United States and eligible for AICPA membership is a member of the AICPA by confirming membership with the Division's staff, or examining invoices and cancelled checks.

3. Inquire about the existence of present or pending matters that might affect the ability of the CPA to engage legally in the practice of public accounting.

4. Review copies of the firm's annual reports to the Section and note any apparently inappropriate information that needs to be corrected.

5. Review documentation evidencing payment of the applicable Section's dues for the current year.
PRP Section 4600

Staff Interview Questionnaire

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

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

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

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

STAFF INTERVIEW QUESTIONNAIRE

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

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<th>Interviewee Code</th>
<th>Level of Interviewee</th>
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<td></td>
<td>Suggested Questions</td>
<td>Responses</td>
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</table>

A. Independence

1. How does the firm inform you of its policies and of those entities to which the firm's independence policies apply?

2. If you had a question on an independence matter, what would you do?

3. Are you aware of any engagements in which you believe the firm was not independent?  
   Yes _____ No _____ If yes, which engagements?

4. Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor?  
   Yes _____ No __________ If yes, has the independence of that firm been confirmed?  
   Yes _____ No __________ If not, why?

B. Assigning Personnel to Engagements

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?

C. Consultation

1. If you do not know the answer to an accounting or auditing question, what would you do?
### Suggested Questions

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<th>Suggested Questions</th>
<th>Responses</th>
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<tr>
<td>2. Has the firm identified any specialized situations requiring consultation? Yes</td>
<td>No ______. If yes, give a few examples. How have you been apprised of situations requiring consultation with a specialist?</td>
</tr>
<tr>
<td>3. Has the firm identified any individuals within the firm as (industry) specialists? Yes</td>
<td>No ______. If yes, give a few examples. How have you been apprised of them?</td>
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### D. Supervision

1. Do you believe that the engagements on which you have participated have been properly planned? Yes ______ No ______. If no, explain why.

2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibility.)

3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?

4. To what extent have you supervised other people on engagements on which you have participated? Were you adequately trained to carry out that responsibility?

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

### E. Hiring

1. How were you informed about the quality control policies and procedures that are relevant to you?

### Staff Involved in Recruiting Process

2. Prior to becoming involved in the hiring process, were you informed about the firm’s hiring objectives? Yes ______ No ______. If yes, how were you apprised of this information?

3. What attributes, achievements and experiences are sought in hirees?
### 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?
# Staff Interview Questionnaire

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?

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<tr>
<th>Suggested Questions</th>
<th>Responses</th>
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<td>I. Inspection</td>
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Date of Interview_____________________________________

Interviewer’s Signature_____________________________________________________________________________

Date Interview Questionnaire Reviewed by Team Captain ________________________________

Team Captain’s Signature_____________________________________________________________________________

[The next page is 4701.]
PRP Section 4700

Conclusions of the Review Team on an On-Site Peer Review

.01 Section 4700 sets forth a series of questions designed to assist reviewers in reaching overall conclusions on the functional areas. The responses also assist the reviewers in determining whether the appropriate procedures have been performed, adequately documented, and properly summarized. The questions incorporate the objectives of quality reviews.

.02 Reviewers should answer the questions asked in this section for each quality control element for which the corresponding section of the Guidelines for Review of Quality Control Policies and Procedures (PRP sections 4400 or 4500) was completed. If the questions concerning a particular element were not answered in the Guidelines, reviewers should place an “X” in the box directly below the name of the element.

.03 Section 4700 should be completed after the summaries of “no” answers on engagements and the summary of matter for further consideration forms have been prepared.

.04 See Appendixes B and D of the Standards for Performing and Reporting on Peer Reviews (section 3100) of this manual for guidance on when a qualified or adverse report should be issued and what matters should be included in a letter of comments.

.05 The conclusions noted in this section should be consistent with the matters discussed in the report and, if applicable, the letter of comments.
AICPA Peer Review Program

CONCLUSIONS OF THE REVIEW TEAM ON AN ON-SITE PEER REVIEW

Reviewers should answer the questions asked on this form concerning each quality control element for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed. If the questions concerning a particular quality control element were not answered in the Guidelines, reviewers should place an "X" in the box below the name of that element.

See Appendixes B and D of the Standards for Performing and Reporting on Peer Reviews (section 3100) for guidance on when a qualified or adverse report should be issued and what matters should be included in a letter of comments.

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?

If Any of the Above Questions Were Answered "No," Please Answer the Remaining Questions

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.*

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4. In your opinion, do the "no" answers indicate matters that should:
   a. Result in a qualified or adverse report? ____________________________

   b. Be included in the letter of comments? ____________________________

________________________________________________________________________

Reviewer's Signature______________________________________________________
Date__________________________

Team Captain's Signature__________________________________________________
Date__________________________

* Attach additional pages as necessary in responding to questions on this form.
B. Assigning Personnel to Engagements

☐ Questions In Guidelines Not Answered

1. Based on 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? [YES NO N/A]
   b. Communicates its policies and procedures for assigning personnel to engagements to professional personnel? [YES NO N/A]
   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? [YES NO N/A]
      ii. Timing of the work to be performed? [YES NO N/A]
      iii. Special expertise required? [YES NO N/A]
      iv. Continuity and periodic rotation of personnel? [YES NO N/A]
      v. Opportunities for on-the-job training? [YES NO N/A]
      vi. Personnel availability? [YES NO N/A]
   d. Notifies staff of work assignments on a timely basis? [YES NO N/A]
   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? [YES NO N/A]

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

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? [YES NO]
   b. Noncompliance with the system of quality control? [YES NO]
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.*

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

4. In your opinion, do the “no” answers indicate matters that should:
   a. Result in a qualified or adverse report?  
   b. Be included in the letter of comments?  

Reviewer’s Signature ___________________________________________ Date ___________________

Team Captain’s Signature _________________________________________ Date ___________________
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

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?
Conclusions of the Review Team on an On-Site Peer Review

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.*

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YES  NO

4. In your opinion, do the “no” answers indicate matters that should:
   a. Result in a qualified or adverse report?
      __________  __________
   b. Be included in the letter of comments?
      __________  __________

Reviewer’s Signature ___________________________________________ Date ________________
Team Captain’s Signature _________________________________________ Date ________________

* Attach additional pages as necessary in responding to questions on this form.
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? [YES NO N/A]

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

      i. Guidelines for the form and content of working papers? [YES NO N/A]

      ii. Standardized forms, checklists, questionnaires, and other guidance materials to the extent appropriate? [YES NO N/A]

      iii. Adequate supervision at all organizational levels? [YES NO N/A]

      iv. Procedures for resolving differences of professional judgment among the engagement team? [YES NO N/A]

   c. Has established appropriate procedures for reviewing engagements and for the documentation thereof? [YES NO N/A]

   d. Adequately communicates its policies and procedures relating to supervision to all professional personnel? [YES NO N/A]

   e. Complied with its policies and procedures for supervision during the period and adequately documents its compliance to the extent required by firm policy? [YES NO N/A]

   f. Conformed with professional standards during the period in the performance of the accounting and auditing engagements selected for review? [YES NO N/A]

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

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? [YES NO]

   b. Noncompliance with the system of quality control? [YES NO]
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.*

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4. In your opinion, do the "no" answers indicate matters that should:
   a. Result in a qualified or adverse report?  
      YES  NO
   ___   ___
   
   b. Be included in the letter of comments?
      ___   ___

Reviewer's Signature ___________________________________________ Date__________
Team Captain's Signature _________________________________________ Date__________

* Attach additional pages as necessary in responding to questions on this form.
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 hires?  

   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

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?  

PRP § 4700.06

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Conclusions of the Review Team on an On-Site Peer Review

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.*

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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

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.*

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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 owners and other professional personnel on a periodic basis?  
   
   e. Provides for appropriate documentation of evaluations of performance?  
   
   f. Appropriately evaluates the data obtained regarding performance and gives proper recognition in advancement decisions to the quality of work performed?  
   
   g. Appropriately monitors the firm’s advancement experience on a periodic basis to ascertain whether individuals meeting stated criteria are assigned increasing degrees of responsibility?  
   
   h. Complied with its advancement policies and procedures during the period and adequately documents its compliance to the extent required by firm policy?

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

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?

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Conclusions of the Review Team on an On-Site Peer Review

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 adequate documentation.

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4. In your opinion, do the “no” answers indicate matters that should:
   a. Result in a qualified or adverse report?
      YES  NO

   b. Be included in the letter of comments?
      YES  NO

Reviewer’s Signature_________________________________________ Date____________________

Team Captain’s Signature_______________________________________ Date__________________
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?  
      YES  NO  N/A

   b. Requires communication with predecessor auditors, if any, in accordance with auditing standards?  
      YES  NO  N/A

   c. Has established appropriate policies and procedures for evaluating whether the relationship with existing clients should be continued?  
      YES  NO  N/A

   d. Communicates its policies and procedures for accepting and continuing clients to appropriate personnel?  
      YES  NO  N/A

   e. Adequately monitors its compliance with its policies and procedures relating to acceptance and continuance of clients?  
      YES  NO  N/A

   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?  
      YES  NO  N/A

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

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?  
      YES  NO

   b. Noncompliance with the system of quality control?  
      YES  NO
3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.


4. In your opinion, do the "no" answers indicate matters that should:
   a. Result in a qualified or adverse report?

   YES  NO

   b. Be included in the letter of comments?

   YES  NO

Reviewer's Signature________________________________________________________ Date____________________

Team Captain's Signature___________________________________________________ Date__________________

* Attach additional pages as necessary in responding to questions on this form.
I. Inspection

☐ Questions in Guidelines Not Answered

1. Based on the reading information obtained from the questionnaire filled out by the reviewed firm and other relevant written firm materials, discussions with firm personnel, and the results of specific procedures performed, do you conclude (after giving due consideration to factors such as the size of the firm, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice, its organization, and appropriate cost-benefit considerations) that the firm:
   a. Has established appropriate inspection procedures to provide reasonable assurance that the firm's quality control policies and procedures in other areas are operating effectively? ☐ ☐ ☐
   b. Has established appropriate qualifications for personnel who participate in inspection activities? ☐ ☐ ☐
   c. Has performed and documented a comprehensive inspection:
      i. Covering the year under review? ☐ ☐ ☐
      ii. Covering the two preceding years? ☐ ☐ ☐
   d. Has discussed inspection findings with appropriate personnel? ☐ ☐ ☐
   e. Has taken or planned appropriate corrective actions with respect to inspection findings? ☐ ☐ ☐
   f. Adequately monitors the corrective actions taken. ☐ ☐ ☐

If Any of the Above Questions Were Answered “No,” Please Answer the Remaining Questions

2. In your opinion, do the “no” answers in Question 1 above indicate:
   a. A deficiency in the design of the system of quality control? ☐ ☐
   b. Noncompliance with the system of quality control? ☐ ☐
3. Briefly describe all "no" answers to Question 1. If the "no" answers are deemed to be instances of noncompliance, indicate whether they reflect a lack of performance or inadequate documentation.*

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

4. In your opinion, do the "no" answers indicate matters that should:
   YES NO
   
   a. Result in a qualified or adverse report?
      
   b. Be included in the letter of comments?
      

Reviewer's Signature________________________________________________________ Date______________
Team Captain's Signature____________________________________________________ Date______________

* Attach additional pages as necessary in responding to questions on this form.
J. Membership Requirements (For PCPS Member Firms Only)

1. Based on reading the relevant section in the quality control document (if any) and other relevant written firm materials, and/or the information obtained from the questionnaire filled out by the reviewed firm, discussions with firm personnel, and the results of the specific procedures performed and engagements reviewed, do you conclude that the firm complied with each of the Section's membership requirements in all material respects?

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>N/A</th>
</tr>
</thead>
</table>

If the Answer to the Preceding Question Was “No,” Please Answer the Remaining Questions

2. Briefly describe the reason for the “no” answer.*

* Attach additional pages as necessary in responding to questions on this form.

3. In your opinion, does the “no” answer indicate matters that should—**


   b. Be included in the letter of comments? Briefly explain why.

   c. Be discussed at the exit conference only? Briefly explain why.

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
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Reviewer’s Signature .......................................................... Date ______________________

Team Captain’s Signature ..................................................... Date ______________________
PRP Section 4800

Team Captain Checklist—On-Site Peer Reviews

.01 This section of the manual contains a team captain checklist for on-site peer reviews. It provides a basic overview of the way in which all on-site peer reviews—regardless of firm size—are to be conducted.

.02 The checklist must be completed on all on-site peer reviews of firms participating in the AICPA Peer Review Program, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program (a committee-appointed review team), or by an authorized association of CPA firms.
AICPA Peer Review Program

TEAM CAPTAIN CHECKLIST—ON-SITE PEER REVIEWS

This checklist provides a basic overview of the way in which all on-site peer reviews—regardless of firm size—are to be conducted. It must be completed on all on-site peer reviews of firms enrolled in the AICPA Peer Review Program or the private companies practice section, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program (a committee-appointed review team), or by an authorized association of CPA firms.

On-site peer reviews are administered by state CPA societies participating in the program. Hereafter, those entities are referred to collectively as the administering entity.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

I. Prior to the Review

1. Review the background information furnished by the firm and sent to you by the administering entity.

2. Contact the firm to be reviewed sufficiently in advance of the review (ordinarily, at least three weeks before the review) and—
   a. Confirm the timing of the review and the expected date of the exit conference.
   b. Confirm that the administering entity has been notified about the arrangements for the review and that the firm has received acknowledgement of that information.
   c. Confirm in all reviews performed by a committee-appointed review team that the firm has returned a signed copy of the engagement letter to the administering entity.
   d. Request the firm to provide—
      (i) A copy of its completed quality control policies and procedures questionnaire.
      (ii) A client list (see illustration in “Instructions to Reviewed Firms”).
      (iii) A list of the firm’s professional personnel, showing name, position, and years of experience (1) with the firm and (2) in total.
      (iv) A copy of the client’s 8-K filing notifying the SEC of the change in auditors if the firm has been the auditor for an SEC registrant and has resigned, declined to stand for re-election or been dismissed since the date of the firm’s last peer review or quality review or during the review year if the firm has not previously had a review to verify that the client/auditor relationship has terminated.
   e. Inquire whether the firm has had a previous peer or quality review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents.
   f. If the firm performed an SEC engagement during the review year contact the AICPA Peer Review Division.
   g. Confirm that the firm has designated an owner or senior staff member to act as a liaison with the review team.
h. Confirm that persons in the firm responsible for the various quality control functions will be available for interviews during the review, especially at the beginning of the review. (In smaller firms, the managing owner might be the primary source of information about the firm’s quality controls.)

i. Inquire whether—
   (i) The owners of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy.
   (ii) The firm is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee in connection with the quality of the firm’s accounting and auditing practice and, if available, the results thereof.
   (iii) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing that were effective during the period since the firm’s last peer or quality review (or since enrolling in one of the AICPA practice monitoring programs, whichever is later) and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (e.g., SEC, GAO, or DOL). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s actions to comply with such restrictions or limitations.
   (iv) Any requirements of relevant state boards of accountancy must be met for the review to be accepted by such board(s) as meeting its requirements.

j. Select a review period that covers a current period of one year and obtain the agreement of the reviewed firm. The review year ordinarily should end about three to four months before the review commences. It does not have to be the same as the firm’s fiscal year. However, the review year ordinarily must not end before the end of the previous calendar year.

3. Contact any other review team members and confirm arrangements, including travel and hotel arrangements, with them.

4. Read the reviewed firm’s responses to the appropriate quality control policies and procedures questionnaire and the firm’s inspection reports (if available) to obtain a general understanding of those policies and procedures.

5. Based on the information provided by the reviewed firm, make a preliminary selection of the practice offices to be visited and the engagements to be reviewed. (See the Standards for guidance on the selection of offices and engagements and note that engagements selected for review should be those with years ending during the year under review unless a more recent report has been issued at the time of selection.) To minimize any assertion that advance selections may afford undue opportunities for “clean-up” of the working papers, it is preferable that the selection of some engagements not be made known to the firm until the review team arrives. In selecting engagements for review, greater weight should be given to large, complex, and high-risk engagements and audits conducted pursuant to the Employee Retirement Income Security Act (ERISA) of 1974. In addition, the sample of engagements selected for review should include—
On-Site Peer Reviews for Firms That Perform Audits

- One or more audits conducted pursuant to the Government Auditing Standards issued by the U.S. General Accounting Office (the "Yellow Book").
- One or more engagements subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act.
  a. Assign code numbers to the engagements selected to maintain client confidentiality and request the firm to complete the profile sheets in the engagement review checklists and to assemble the working papers and reports before the review begins.
  b. If the reviewed firm does not permit the working papers for certain engagements to be reviewed, evaluate the reasonableness of the explanation and consider what other actions may be appropriate in the circumstances (see the Standards, on "Scope of the Review"). When the explanation is that the client has refused to allow its engagement to be reviewed, inspect any written communications between the firm and the client and evaluate whether the firm made a good-faith effort to obtain the client's concurrence to the review.

II. At the Beginning of the Review
  1. Meet with other reviewers to—
     a. Orient them to firm policies and procedures.
     b. Instruct them in the manner in which working papers, questionnaires, checklists, and MFC forms are to be prepared to facilitate supervision and review.
     c. Explain the "key audit area" approach to engagement review, noting that the team captain should concur in advance with respect to such decisions.
     d. Assign responsibilities.
  2. If the firm was previously reviewed, consider whether matters, if any, discussed in the firm's prior report, letter of comments, and response thereto require additional emphasis in the current review, and discuss these matters with the other members of the review team.

III. During the Review
  1. Gain, through discussion with the managing owner and/or other key personnel an understanding of the firm's professional and management environment and the business environment in which the firm and its clients practice. (The professional environment established by a firm and the business environment in which it and its clients operate can have a significant impact on the effectiveness of a firm's quality control system. A quality firm has as its overriding objective the provision of audit, accounting, tax, and advisory services to clients in the best professional manner; the reviewer should know whether this philosophy is espoused by the firm and whether it is communicated to and understood by all personnel. Also, the business environment in which the firm and its clients operate can place pressures on professionalism, pressures that only a strong system supported by leadership from the top can ordinarily meet.)

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2. Make or approve any modifications to programs and checklists issued by the AICPA for the conduct of the review, noting that the Standards provide: “Failure to complete all relevant programs and checklists in a professional manner creates the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program.”

3. Make any additional selection of offices or engagements for review and ascertain that the scope of the review conforms with the guidance in the Standards.

4. Make appropriate arrangements for an exit conference and, for multi-office firms, determine that appropriate arrangements are made for an exit conference at each office visited.

5. Consult with the administering entity or its designee in situations previously identified by the entity and whenever any of the following situations are encountered:
   a. The review team feels it may not have the expertise required under the Standards to accomplish the required engagement reviews satisfactorily.
   b. The review team is considering whether to terminate the review because, for example, of a lack of cooperation.
   c. The review team and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, the letter of comment to be issued, matters that may require the application of the guidance in AICPA Professional Standards, AU 561 and AU 390, and similar matters with respect to engagements to compile or review historical financial statements or to examine prospective financial statements.
   d. There is any uncertainty about the report to be issued or the matters to be included in the letter of comments (see IV. 1).

6. Consider the need to consult with the administering entity or its designee whenever the following situations are encountered:
   a. Difficulties in complying with the Standards, especially in selecting engagements or offices for review.
   b. Circumstances that may call for issuance of other than an unqualified report.

7. Prepare or review the applicable checklist, “Guidelines for On-Site Peer Reviews.” [There is one checklist for sole practitioners with no professional staff (PRP section 4400) and one for all firms with two or more professional staff (PRP section 4500).]

8. Prepare or review a summary of “no” answers on engagements reviewed. (The format of the summarization is left to the discretion of the reviewer; however, summary engagement checklists are available in PRP section 7000.)
   a. Ascertain that all significant items are included on an MFC form and
   b. Review the reviewed firm’s responses to all such forms, making sure that the form clearly indicates that the reviewed firm agrees with the facts as described or explains its reasons for disagreement.

9. If the firm is a multi-office firm and it facilitates summarization of the results of the review of the firm as a whole, prepare or review memoranda summarizing the results of the reviews of each office visited using the format suggested in Appendix A to this checklist.
10. Prepare or review a summary of MFC forms and evaluate the impact of the matters discussed on those forms on the firm’s quality control system and its compliance with that system and, if applicable, with the membership requirements of the private companies practice section. (The format of the summarization is left to the discretion of the reviewer; however, a summary format is available in PRP section 4900.)

11. Complete the applicable sections of the “Conclusions of the Review Team on an On-Site Peer Review.” The reviewer should only complete those sections for which the corresponding section in the Guidelines for Review of Quality Control Policies and Procedures was completed.

12. Develop a list of points to be discussed at the firm-wide exit conference, distinguishing between—
   a. Matters that require a qualified or adverse report.
   b. Other matters that will be included in the letter of comments.
   c. Other comments and suggestions.

13. Prepare the firm-wide summary review memorandum using the format suggested in Appendix B to this checklist.

14. Notify the administering entity promptly if there is a change in the date of the exit conference.

IV. At Completion of the Review

1. Communicate the review team’s findings to senior members of the reviewed firm at an exit conference. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the report and about all significant findings and recommendations that will be included in the letter of comments. Accordingly, except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. Also, at that time discuss the following with the reviewed firm—
   a. The report and letter of comments:
      (i) Are to be provided to the reviewed firm within thirty days of the exit conference.
      (ii) Are to be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report and letter of comments.
   b. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial or corrective actions taken or planned to prevent a recurrence of each matter described in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement.
   c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.
   d. The actual time incurred on the review to date and additional time anticipated to complete all aspects of the review.

2. Review Section 3400, Guidance for Writing a Letter of Comments.
3. Prepare the report and letter of comments following the guidance in the Standards, and—
   a. Submit the original of such documents to the reviewed firm within thirty days of the date of the exit conference.
   b. Submit a copy of such documents to the administering entity, along with a copy of the review completion form. (See Appendix A.)

4. Complete the summary review memorandum. (See Appendix B.)

5. For reviews conducted by committee-appointed review teams—
   a. Send all working papers to the administering entity in two separate mailings—
      (i) Working papers for reviews of individual engagements.
      (ii) All other working papers and correspondence. (See Appendix C.)
   b. Approve bills for time and expenses of review team members and submit them along with your own bill to the administering entity. Make sure the bills include the Federal employer identification number for Form 1099 purposes, when applicable.

6. For all other reviews, send a copy of the firm-wide summary review memorandum, the team captain checklist and the MFC forms to the administering entity. Note that other working papers on these reviews are subject to oversight procedures, which may be applied at a later date.
ON-SITE PEER REVIEW COMPLETION FORM

Date: ____________________________

To: ______________________________________________________

From: ___________________________________________________
        (Name of the Review Team Captain)

Re: Review of ____________________________________________________________________________
        Firm Number _____________________ Review Number ______________________

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

2. When was the report delivered to the reviewed firm? __________________________

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

4. If the report was qualified or adverse, what were the reasons? * ______________

5. Where will the working papers be shipped?

   ______________________________________________________________

   ______________________________________________________________

   ______________________________________________________________

   ______________________________________________________________

6. When will the working papers be shipped to the entity noted in 5 above? __________

   * * * * * * *

Team Captain Signature ____________________________________________________________

* Please use the report codes on page 4809.
REPORT CODES

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

REASONS FOR QUALITY CONTROL SYSTEM QUALIFICATIONS
301  Independence
302  Consultation
303  Supervision
304  Professional Development
305  Assigning Personnel to Engagements
306  Hiring
307  Advancement
308  Acceptance of Clients
309  Continuance of Clients
310  Inspection

REASONS FOR MEMBERSHIP QUALIFICATIONS
401  Continuing Professional Education
499  Other
INSTRUCTIONS FOR PREPARATION OF SUMMARY REVIEW MEMORANDUM
ON ON-SITE PEER REVIEWS

The purpose of the Summary Review Memorandum is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments, if any, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments. This documentation is required to enable the state CPA society administering the review to exercise its oversight function in an effective and consistent manner.

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

A copy of the summary review memorandum and of the team captain checklist must be submitted to the administering entity for all on-site peer reviews, whether conducted by committee-appointed review teams, firms, or teams appointed by authorized associations of CPA firms.
AICPA Peer Review Program

SUMMARY REVIEW MEMORANDUM FOR ON-SITE PEER REVIEWS

Reviewed Firm’s Name

Reviewed Firm’s Address

Peer Review Year End

I. Description of Firm
   A. Professional Staff Profile (if the firm has more than one office, provide a breakdown by office):
      
      | Office 1 | Office 2 | Office 3 | Total |
      |----------|----------|----------|-------|
      | Owners (or equivalent) | | | |
      | Managers (or equivalent) | | | |
      | Other Professionals | | | |

   B. Indicate extent of industry specializations, if any:
      
      __________________________________________________
      __________________________________________________
      __________________________________________________
      __________________________________________________
      __________________________________________________
      __________________________________________________
      __________________________________________________

II. Planning the Review
   A. Composition of Review Team:
      1. Team Captain
         Firm ______________________ Position ______________________
         Areas of Experience 1 ______________________

      2. Team Member
         Firm ______________________ Position ______________________
         Areas of Experience 1 ______________________

      3. Team Member
         Firm ______________________ Position ______________________
         Areas of Experience 1 ______________________

1 As it relates to the reviewed firm’s practice.

AICPA Peer Review Program Manual

PRP § 4800.05
B. Describe basis for and degree of reliance, if any, on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)


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


D. Development of Review Program:
   1. Describe any significant deviations from AICPA peer review questionnaires and checklists and explain reason:


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2. Describe major considerations in selection of offices for review, and indicate whether and how requirements of relevant state boards of accountancy in that regard were met in order for the review to be accepted by such board(s) as the equivalent of ones performed under the board’s own positive enforcement program:


3. Describe major considerations in selection of engagements for review:


E. Important Dates:
Commencement of Review
Exit Conference
Issuance of report and, if applicable, letter of comments
Mailing of working papers (committee-appointed review teams only) or team captain checklist and SRM to the state CPA society administering the review
III. **Scope of Work Performed**

A. **Accounting and Auditing Statistics:**

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<tr>
<th></th>
<th>Total</th>
<th>Offices</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Hrs.</td>
<td>No. of</td>
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<tr>
<td></td>
<td>Engs.</td>
<td></td>
</tr>
<tr>
<td><strong>Audits:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Subject to Government Auditing Standards ²</td>
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<tr>
<td>ERISA</td>
<td></td>
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<tr>
<td>SEC</td>
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<tr>
<td>Other</td>
<td></td>
<td></td>
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<tr>
<td><strong>Reviews ³</strong></td>
<td></td>
<td></td>
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<tr>
<td>Compilations ³</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Accounting Services ⁴</td>
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|                      |       |         |       |        |

B. **Engagements Reviewed:**

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<th>Total</th>
<th>Offices</th>
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<tr>
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<td>Hrs.</td>
<td>No. of</td>
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<td></td>
<td>Engs.</td>
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<td><strong>Audits:</strong></td>
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<tr>
<td>Subject to Government Auditing Standards ²</td>
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<td><strong>Reviews ³</strong></td>
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<td>Compilations ³</td>
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<td>Other Accounting Services ⁴</td>
<td></td>
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|                      |       |         |       |        |
|                      |       |         |       |        |

| Percentage of A&A Practice Reviewed |       |         |       |        |

---

² Includes only audits of entities subject to Government Auditing Standards ("Yellow Book"), including audits subject to OMB Circulars A-128 and A-133.

³ The number of engagements should include each monthly, quarterly and annual report issued.

⁴ Encompasses all other accounting and auditing services for which professional standards have been established, including engagements to report on an entity's system of internal accounting controls, its prospective financial statements, and the results of applying agreed-upon procedures to specified elements, accounts, or items of financial statements, etc.
C. Did the firm perform any audits of federally insured depository institutions with more than $500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes __ No __. If yes, how many were included in the scope of the peer review? ______

D. Were you requested not to review any engagements? Yes ____ No ___. If yes, describe the reason for the request, whether you were satisfied as to the reason, and how this affected the scope of the review.

________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________

IV. Overall Findings and Conclusions:

A. Attach a copy of the report issued.

B. Was a letter of comments issued? Yes ____ No ___. If yes, attach a copy. If no, comment briefly on the reviewer's findings in relation to that decision.

________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
C. If a letter of comments was issued, did any matters in the letter cause you to consider issuing a qualified or adverse report but not result in such a report being issued? Yes ____ No ____. If yes, describe such matters fully, including the basis for the conclusion.

________________________________

________________________________

________________________________

________________________________

________________________________

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

________________________________

________________________________

________________________________

________________________________

________________________________

________________________________

________________________________

________________________________

________________________________

________________________________
E.1. Does the firm perform inspections as contemplated by the AICPA quality control standards? Yes ____ No ____ (This question should be answered for all reviews.)

2. If the answer to E.1 is yes, were the inspection procedures appropriate? Yes ____ No ____.

3. If the answer to E.2 is no, describe the reason(s) why the inspection procedures are inappropriate.

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

---

5 Questions E.2 and E.3 should be answered for all reviews of firms with more than ten professionals.

6 Questions E.2 and E.3 should be answered for reviews of firms with up to ten professionals when the review team notes significant deficiencies on the engagements reviewed.
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. ______________________________________________________________
   ________________________________________________________________________________
   ________________________________________________________________________________
   ________________________________________________________________________________

---

7 These situations should be reflected on the Engagement Statistics Data Sheet in Attachment 1. Also, when there is a disagreement with the reviewed firm about these situations, the reviewers should consult with the administering entity or its designee.

AICPA Peer Review Program Manual

PRP § 4800.05
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.

---

8 See footnote 6.
J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with standards for accounting and review services (ET202)? Yes ___ No ___.

If yes:

1. Describe such situations fully.

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

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____________________________________________________________________________________

____________________________________________________________________________________

2. Indicate whether the firm considered the matter.

____________________________________________________________________________________

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____________________________________________________________________________________

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____________________________________________________________________________________

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

____________________________________________________________________________________

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____________________________________________________________________________________

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

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

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

____________________________________________________________________________________

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____________________________________________________________________________________

See footnote 6.
K. Did the review disclose any situations that led the reviewers to conclude the documentation on any engagement does not support the standards under which the engagement was performed? Yes ____, No _____. If yes:

1. Describe such situations fully.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

2. Describe the procedures the firm has represented that it performed in the situation(s). _____

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

3. Indicate whether you believe the procedures described by the firm are sufficient in the circumstances. __________________________________________

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

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

1. Describe such situations fully.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

2. Indicate whether the firm considered the matter. __________________________________________

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

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

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

---

10 See footnote 6.
4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions.

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

M. If reliance is being placed on the firm’s inspection program for the current year, did the reviewed firm’s inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items H, I, J and K of this section? Yes _____ No ____. If noted, describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.\(^\text{11}\)

\(^{11}\) See footnote 6.
The following is the actual or best estimate of the number of hours expended to complete the peer review.

<table>
<thead>
<tr>
<th>Actual Review Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Captain</td>
</tr>
<tr>
<td>Team Member(s)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total Review Hours</td>
</tr>
</tbody>
</table>

Team Captain ___________________________

Date ___________________________

Team Captain ___________________________

Date ___________________________
I. Engagement Statistics

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Total No. Reviewed</th>
<th>Total No. Substandard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits—Governmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits—ERISA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits—SEC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits—Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Accounting Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

REASON CODES
Substandard Engagement Reason Codes
- GAA Non-GAAS and Non-GAAP
- GAP Non-GAAP
- GAS Non-GAAS
- SAR Non-SSARS

ACTION CODES
Substandard Engagement Action Codes
1. Report and/or financial statements recalled, revised and reissued
2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)
3. Omitted auditing procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)
4. Cause of independence impairment eliminated
5. Unable to apply omitted procedures
6. Notified parties that no reliance should be placed on the report issued

II. Reasons for Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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</table>

III. Actions To Be Taken on Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Action Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
<td></td>
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<tr>
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IV. Engagements Excluded from Review

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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</tr>
</tbody>
</table>

EXCLUDED ENGAGEMENT REASON CODES
1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

* The information reflected on this sheet should agree with the information reflected in Items III.A, IV.H, IV.J, IV.K, and IV.K of the summary review memorandum.
ATTACHMENT 2

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

A. Budget to Actual Comparison

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Hours</th>
<th>Actual Hours</th>
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<tr>
<td></td>
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<td>Total Captain</td>
</tr>
<tr>
<td>Planning</td>
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<td></td>
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<tr>
<td>Engagement Review</td>
<td></td>
<td></td>
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<tr>
<td>Quality Control System Review</td>
<td></td>
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</tr>
<tr>
<td>Exit Conference</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letter of Comments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (describe if significant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Hours</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range per Engagement Letter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate/ Hour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Amount</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. Was the actual review time discussed with the firm? Yes ___ No ___.

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

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Team Captain ____________________________

Date ____________________________
# Appendix C
## Index for Non-Engagement Related Working Papers

<table>
<thead>
<tr>
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<th>Section Description</th>
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<tbody>
<tr>
<td>A</td>
<td>Peer Review Report</td>
<td>☐</td>
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<tr>
<td>B</td>
<td>Letter of Comments</td>
<td>☐</td>
</tr>
<tr>
<td>D</td>
<td>Team Captain Checklist (PRP Section 4800)</td>
<td>☐</td>
</tr>
<tr>
<td>E</td>
<td>Summary Review Memorandum (PRP Section 4800)</td>
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**PLANNING**

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<tr>
<td>F</td>
<td>Engagement Letter</td>
<td>☐</td>
</tr>
<tr>
<td>G</td>
<td>Firm Background Information</td>
<td>☐</td>
</tr>
<tr>
<td>H</td>
<td>Firm Quality Control Document</td>
<td>☐</td>
</tr>
<tr>
<td>I</td>
<td>Quality Control Policies and Procedures Questionnaire (PRP Section 4200 or 4300)</td>
<td>☐</td>
</tr>
<tr>
<td>J</td>
<td>Planning Conference Memorandum</td>
<td>☐</td>
</tr>
<tr>
<td>K</td>
<td>Preliminary Selection of Engagements</td>
<td>☐</td>
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<td>L</td>
<td>Other Planning Materials</td>
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**PERFORMANCE**

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<td>M</td>
<td>Guidelines for Review of Quality Control Policies and Procedures (PRP Section 4400 or 4500)</td>
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</tr>
<tr>
<td>N</td>
<td>Staff Interview Questionnaires (PRP Section 4600)</td>
<td>☐</td>
</tr>
<tr>
<td>O</td>
<td>Summary of “No” Answers on Engagements (PRP Section 7000)</td>
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</tr>
<tr>
<td>P</td>
<td>Summary of Matter for Further Consideration Forms (PRP Section 4900)</td>
<td>☐</td>
</tr>
<tr>
<td>Q</td>
<td>Matter for Further Consideration Forms</td>
<td>☐</td>
</tr>
<tr>
<td>R</td>
<td>Conclusions of the Review Team (PRP Section 4700)</td>
<td>☐</td>
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<tr>
<td>S</td>
<td>Other Performance Related Materials</td>
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**REPORTING**

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<td>T</td>
<td>List of Points for the Exit Conference</td>
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<tr>
<td>U</td>
<td>Exit Conference Memorandum</td>
<td>☐</td>
</tr>
<tr>
<td>V</td>
<td>Other Reporting Materials</td>
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**ADMINISTRATION**

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<tr>
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<td>Time Summaries</td>
<td>☐</td>
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<tr>
<td>X</td>
<td>Evaluation of Team Members</td>
<td>☐</td>
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<tr>
<td>Y</td>
<td>Other Miscellaneous Correspondence</td>
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</table>
Appendix D
(Optional)

Comments to Improve Auditing Standards

A significant potential benefit of the peer review programs is the opportunity it provides to identify areas of practice where improvements can be made in the professional standards. 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 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.
Team Captain Checklist—On-Site Peer Reviews

Peer Review Questionnaire
(use additional sheet 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.

________________________________________________________________________________________

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________________________________________________________________________________________

Team Captain __________________________________________

Address ________________________________________________

_______________________________________________________

Date ____________________________________________________

[The next page is 4901.]
PRP Section 4900

Instructions for Use of Matter for Further Consideration Forms

.01 A reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of the facts from the reviewed firm.

.02 If a MFC form is prepared during the course of the review and subsequent information indicated that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter has been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated that documentation in a particular area was inadequate, but the reviewer reconsidered and decided that documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.

.03 The matters discussed on an MFC form should be classified as follows—

Design—The reviewer believes that the firm’s quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control objective.

Performance—The reviewer believes that the reviewed firm failed to adhere to professional standards, including GAAP, GAAS, GAGAS, and SSARS.

Compliance—Quality Control System—The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did comply with professional standards.

Compliance—PCPS membership—The reviewer believes that the reviewed firm did not comply with an applicable membership requirement of the private companies practice section.

Documentation—The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

.04 Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.

.05 MFCs relating to both functional and engagement review areas should be sorted by nature of comment.

.06 The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. Matter for Further Consideration forms should be summarized to facilitate these considerations. The format of summarization is left to the discretion of the reviewer; however, a summary format is included on page 4903. Reviewers may use this summary format or develop their own.
**MATTER FOR FURTHER CONSIDERATION**

**REVIEWER’S DESCRIPTION OF THE MATTER**

**REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER?**

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
</table>

**REVIEWED FIRM’S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.**

<table>
<thead>
<tr>
<th>REVIEWER'S ADDITIONAL COMMENTS</th>
<th>Type of Matter:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Design</td>
</tr>
<tr>
<td></td>
<td>Performance</td>
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<tr>
<td></td>
<td>Compliance</td>
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<tr>
<td></td>
<td>Quality Control System</td>
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<td>Compliance</td>
</tr>
<tr>
<td></td>
<td>PCPS Membership</td>
</tr>
<tr>
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<td>Documentation</td>
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</table>

**TEAM CAPTAIN’S COMMENTS, IF ANY**

**FIRM**

**OFFICE CODE NO.**

**CONTROL NO.**

**Signatures**

<table>
<thead>
<tr>
<th>Engagement Owner</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Reviewer</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
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<table>
<thead>
<tr>
<th>Team Captain</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

**Program Questionnaire**

| Engagement
| Section | No. |
|---------|-------|----|
|         |       |    |

<table>
<thead>
<tr>
<th>Element</th>
<th>Checklist Page</th>
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<tbody>
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</table>

<table>
<thead>
<tr>
<th>Program Step</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>
### Summary of Matter for Further Consideration

<table>
<thead>
<tr>
<th>MFC Number</th>
<th>Type of Matter*</th>
<th>Brief Description of Matter</th>
<th>Reference **</th>
<th>Does this matter, individually or collectively, result in a &quot;no&quot; answer in Section 4700?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Yes/No</td>
<td>Briefly explain reasons</td>
</tr>
</tbody>
</table>

* The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either a) design, b) performance, c) compliance—quality control system, d) compliance—PCPS membership, or e) documentation.

** The reviewer should indicate the program or engagement checklist step that led to the MFC.

---

(Name of Reviewed Firm)
## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Instructions for Use of Engagement Checklists</th>
<th>Paragraph</th>
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<td>04-07</td>
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<td>Techniques for Review of Engagements</td>
<td>08-14</td>
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<td>5200</td>
<td>General Compilation Engagement Checklist</td>
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<td>5300</td>
<td>General Review Engagement Checklist</td>
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<td>5500</td>
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<td>5600</td>
<td>Not-for-Profit Audit Engagement Checklist</td>
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<tr>
<td>5800</td>
<td>Prospective Financial Statement Engagement Checklist</td>
<td></td>
</tr>
</tbody>
</table>
PRP Section 5100

Instructions for Use of Engagement Checklists

General

.01 The review of engagements should include the review of financial statements, accountants’ reports, working paper files, and correspondence, as well as discussions with professional personnel of the reviewed firm.

.02 The review of audit engagements should ordinarily include all key areas of the engagements selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the reviewed firm’s quality control policies and procedures.

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

Engagement Checklists

.04 The following checklists have been developed for use by review teams performing on-site peer reviews and are contained in this section of the manual:

a. General Compilation Engagement Checklist (PRP Section 5200)
b. General Review Engagement Checklist (PRP Section 5300)
c. General Audit Engagement Checklist (PRP Section 5400)
d. Governmental Audit Engagement Checklist (PRP Section 5500)
e. Not-for-Profit Audit Engagement Checklist (PRP Section 5600)
f. Employee Benefit Plan Engagement Checklist (PRP Section 5700)
g. Prospective Financial Statement Engagement Checklist (PRP Section 5800)

.05 The general engagement checklists were developed for use in reviewing engagements of “for-profit” companies. They will require extensive modification or supplementation for engagements involving companies in specialized industries, such as insurance and finance companies. Reviewers may wish to refer to the specialized industry disclosure checklists and illustrative financial statements published by the AICPA.

.06 The engagement review checklists (which can be used for most engagements) contain the following sections:

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...

---

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.
disclosure checklist that is completed by the firm’s personnel and filed with the engagement working papers, this section may not have to be completed for each engagement. In such situations, the comprehensiveness of the firm’s checklist and the appropriateness of its use on specific engagements should be tested by the review team. Any disclosure or reporting deficiencies identified by the reviewer should be noted in the comments section of the engagement checklist or on a “Matter for Further Consideration” (MFC) form.

b. The second section of the checklist contains questions concerning planning and other general procedures that normally should be performed for the applicable level of service (e.g., audit, review, or compilation). This section should be completed for each engagement reviewed.

c. The third section included in the general audit engagement checklist contains questions relating to specific audit areas. It is not ordinarily necessary to answer all parts of this section because of the emphasis on key audit areas. (See paragraph .09 below for a discussion of the “key audit area” approach.)

d. The fourth section of the checklist for review of audit engagements and the third section of the checklists for review of review and compilation engagements contains questions concerning the nine quality control areas. These questions are based on the typical policies and procedures that might be established by a firm. All the policies and procedures included in these questions will not have been adopted by all firms. Therefore, the team captain should determine, before the engagement reviews are conducted, if modifications to the checklists are necessary to fit the policies and procedures adopted by the reviewed firm. For example, a number of the questions are not applicable to sole practitioners without full-time professional staff. Each part of this section should be completed for each engagement reviewed.

.07 Audit Engagement Supplements have been developed to facilitate the reviews of audit engagements within specialized industries. At the present time, the checklists that have been approved by the AICPA Peer Review Board are listed in PRP § 6000.

Techniques for Review of Engagements

.08 Background information about an engagement should be obtained by discussion with the engagement partner and by reading the engagement profile sheet (which should be completed by the reviewed firm prior to commencement of the review of the engagement), the primary financial statements and any program sections, memoranda or other working papers describing the company and its business, the firm’s audit approach and problem areas.

.09 Most reviewers find it effective to perform the review—that is, read the financial statements and the related report, review the “top files,” applicable sections of the audit programs, correspondence files, consolidating working papers and other “key audit area” working papers—and then complete the engagement checklist. Any unanswered questions on the checklist are then completed by additional reference to the engagement files.

.10 The depth of review of working papers for particular engagements is left to the judgment of the reviewers; however, the review should ordinarily include all the key areas of an engagement. A page-by-page review of all working papers is not necessary. Points to be considered in determining the key areas include—

a. Key areas in the client’s industry (e.g., revenue recognition for construction companies; inventories and accounts receivable for manufacturing and retail concerns; or loan loss allowances for financial institutions).

b. Key areas noted during the review of the financial statements and discussions with engagement personnel (e.g., review of loan defaults or follow-up of litigation matters).

c. Key areas identified by the firm in planning or conducting the engagement.

d. Recent accounting and auditing developments and pronouncements.
e. Weaknesses noted in other engagements reviewed.
f. Weaknesses noted by the firm during its inspection program.
g. Weaknesses noted in the last review of the firm's quality control system.

.11 Ordinarily, in applying the "key area" concept, all key areas should be reviewed. However, to keep time requirements within reasonable limits, reviewers may decide not to review all key areas of a specific engagement. In such cases, the reviewer should document in the working papers the reasons why all key areas were not reviewed. The reviewer should also exercise judgment in determining how many accounting and auditing hours to claim with respect to the engagement.

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

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

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

.14 In evaluating the reviewed firm's response, the review team should recognize that it has not made an examination of the financial statements in question in accordance with generally accepted auditing standards and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client's business. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances and the reviewed firm should be aware that it may be requested by the state CPA society administering the review to refer unresolved matters to the AICPA Peer Review Board for a final determination.
PRP Section 5200

General Compilation Engagement Checklist

ENGAGEMENT PROFILE

Engagement Code No. __________________________
Owner __________________________
Manager __________________________

This engagement involves reporting on:
1. ( ) compiled balance sheet
   ( ) compiled income statement
   ( ) complete set of compiled financial statements
   ( ) compiled financial statements without statement of cash flows

2. that (include) (omit) substantially all required disclosures and
3. that (include) (do not include) supplementary information.

The financial statements are for an entity that is a (an):
   ( ) independent entity
   ( ) consolidated or combined group
   ( ) subsidiary, division or branch
   ( ) 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:

<table>
<thead>
<tr>
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<th>$_________________________</th>
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<tbody>
<tr>
<td>Total assets</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
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<tr>
<td>Net sales</td>
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<td>Net income</td>
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</table>

Major lines of business:
Complex or troublesome engagement areas:

Compilation hours on this engagement:
Owner __________________________
Manager (or equivalent) __________
Senior __________________________
Other __________________________
Total this office __________________________
Total budgeted __________________________

Date Engagement Review Performed __________

Date Checklist Reviewed by
Team Captain __________________________

Reviewer __________________________
Signature __________________________

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
Checklist for Review of a Compilation of Financial Statements

Contents

Section                                                      Page
I. Report and Financial Statements ........................................... 5203
II. General Procedures ................................................................. 5209
III. Functional Areas                                           5210
      Independence
      Assigning Personnel to Engagements
      Consultation
      Supervision
      Advancement
      Acceptance and Continuance of Clients
      Professional Development
IV. Questions for Use on Compilation Engagements That Omit Substantially All Disclosures 5212
V. Explanation of “No” Answers and Other Comments .................. 5214
VI. Conclusions ............................................................................... 5216

NOTE: This checklist has been updated through SSARS No. 7, SFAS No. 117, and FASB Interpretation No. 40.

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 in 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, Section IV should be completed in lieu of Section I.

Accountant’s Report

Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)  

C101

Does the report adequately disclose all required matters and does it contain the elements required by professional standards, including appropriate language describing any modification from professional standards, if appropriate? (AR Secs. 100.14-.18, 39-.41)  

C102

Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)  

C103

If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Secs. 100.20 and AR9 100.41-.45)  

C104

If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)  

C105

Does each page of financial statements that have been compiled include a reference to the accountant’s report? (AR Sec. 100.16)  

C106

Financial Statements and Notes

General

Are the financial statements suitably titled? (AU Sec. 623.07 and .24)  

C107

Do the financial statements appear to be free of material error? (AR Sec. 100.13)  

C108

Is the accounting appropriate and are the disclosures adequate regarding:

   Significant accounting policies? (AC Sec. A10.105-.108)  
   Accounting changes? (AC Sec. A06)  
   Comparative financial statements? (AC Sec. F43)  
   Business combinations? (AC Sec. B50)

C109  
C110  
C111  
C112

Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)  

C113

* 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 an individual or entity controls a group of related entities, did the accountant consider the need for combined financial statements? (AC Sec. C51.121-.122)

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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)

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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)

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Are required disclosures made concerning related-party transactions? (AC Sec. R36)

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Are required disclosures made regarding economic dependence on one or more major customers or suppliers? (AC Sec. R36.406)

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Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed? (AC Sec. F60)

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Are foreign operations and export sales adequately disclosed? (AC Sec. F65)

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Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)

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With respect to contingencies and commitments:

- Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)

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- Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)

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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)

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Are the financial statements adjusted where appropriate, and do they disclose uncertainties regarding the entity’s ability to continue as a going concern? (AU Sec. 341.10-.11)

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<th>QUES.</th>
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Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)

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<th>QUES.</th>
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Are all other pension plans adequately disclosed? (AC Sec. P16)

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Is the required information on defined benefit postretirement plans other than pensions, adequately disclosed? (AC Sec. P40.169)

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Have postemployment and postretirement benefits, other than pensions, been properly accounted for? (AC Secs. P32 and P40)

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If the entity is or has been a “development stage enterprise,” are adequate disclosures made? (AC Sec. De4.105-.109)

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Do the financial statements, where required, include appropriate disclosures of futures contracts? (AC Sec. F80)

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Are adjustments of financial statements for prior periods appropriate? (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)

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**Balance Sheet**

Is the accounting appropriate and are the disclosures adequate regarding:

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)
- Valuation allowances? (AC Sec. V18)
- Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)
- Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? (AC Sec. I80.103-.110)

**Accounts and Notes Receivable:**

- 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)
- Effects of troubled debt restructurings? (AC Secs. D22.121, .136-.137 and I08)

**Other receivables?**

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement) are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor’s income recognition policy disclosed? (AC Sec. I08.118)

**Inventories? (AC Secs. B05.105 and I78)**

**Investments accounted for under the equity method? (AC Sec. I82.109-.110)**

**Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I27)**

**Sales-type, direct financing, leveraged, 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, Co2.102-.111, and I27.140-.142)

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 owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101A)

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Current liabilities? (AC Sec. B05.108-.109 and .118)

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Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117)

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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. 169)
- Effect of troubled debt restructurings? (AC Sec. D22.121-.122)
- 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)

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Capital leases of lessees? (AC Sec. L10.106 and .112)

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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)

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Capital stock (number of shares authorized, issued, and outstanding, par or stated value per share, rights and preferences of various classes)?

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<td>C160</td>
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Treasury stock? (AC Sec. C23)

<table>
<thead>
<tr>
<th>QUES.</th>
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<tr>
<td>C161</td>
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Stock option and stock purchase plans? (AC Sec. C47)

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<tr>
<td>C162</td>
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Stock subscriptions receivable? (EITF 85-1)

<table>
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<th>QUES.</th>
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<tbody>
<tr>
<td>C163</td>
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</table>

Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)

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<tr>
<th>QUES.</th>
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<tbody>
<tr>
<td>C164</td>
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</table>

Changes in stockholders’ equity? (AC Secs. Co8.102 and A35.103,.105-.107)

<table>
<thead>
<tr>
<th>QUES.</th>
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<th>NO</th>
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<tbody>
<tr>
<td>C165</td>
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</tbody>
</table>

Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>C166</td>
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</tbody>
</table>

### Income Statement

Are the important components of the income statement separately disclosed?

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</thead>
<tbody>
<tr>
<td>C167</td>
<td></td>
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</tbody>
</table>

Is the accounting appropriate and are the disclosures adequate regarding:
Method of income recognition, where appropriate; for example: long-term contracts and real estate transactions? (AC Secs. R10, Co4.110 and Co5)

Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. I80)

Application of the equity method? (AC Sec. I82.109)

Research and development costs? (AC Sec. R50)

Computer software costs? (AC Sec. Co2.110)

Capitalization of interest costs? (AC Sec. I67)

Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)

Depreciation? (AC Sec. D40)

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. L10.111-.112)

Income Taxes:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)

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 needs 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)

Discontinued operations? (AC Sec. I13)

Extraordinary items? (AC Sec. I17)

Unusual or infrequent items, but not both? (AC Sec. I22)
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-.124)  

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 the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-.111A)  

Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (I80.117)  

Other

If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the suggested format, statements, and disclosures consistent with the guide?  

Summary

Does it appear that disclosures in the financial statements are reasonably adequate?
II. GENERAL PROCEDURES

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.*</th>
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</thead>
<tbody>
<tr>
<td>C205</td>
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<tr>
<td>C206</td>
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</tbody>
</table>

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? (AR Sec. 100.10-.12)

If the engagement was originally intended to be an audit or review, rather than a compilation, or an audit rather than a review, did the accountant consider (AR Sec. 100.44-.49):

- The reason given for the client’s request, particularly the implications of a restriction on the scope of the audit or review, whether imposed by the client or by circumstances?
- 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 of 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)

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)

C207  |     |     |    |       |
C208  |     |     |    |       |
C209  |     |     |    |       |
C210  |     |     |    |       |
C211  |     |     |    |       |
C212  |     |     |    |       |
C213  |     |     |    |       |
C214  |     |     |    |       |

* 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.
### III. FUNCTIONAL AREAS

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
<th>NO</th>
<th>REF.*</th>
</tr>
</thead>
</table>

#### Independence (QC Sec. 10.07a)
If anything has been noted that may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm, and its effects appropriately considered? If the accountant was not independent, was the report appropriately modified? (ET Sec. 101 and AR Sec. 10.22)

Have personnel been appropriately advised about the need to observe independence requirements concerning the client and any other related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

Were the fees (billed/unbilled) for the prior year’s services paid prior to issuance of the current year’s report? (ET 191.103-.104)

#### 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 issues warranted it? (QC Sec. 90.14)

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances? (SECP only)

Based on the facts and circumstances, were the firm’s conclusions reasonable and consistent with professional standards? (SECP only)

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 all forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

---

* 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.

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<tr>
<th>QUES.</th>
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<td>C315</td>
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<tr>
<td>C321</td>
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</tr>
</tbody>
</table>

Planning checklists?
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 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 familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)
IV. QUESTIONS FOR USE ON COMPILATION ENGAGEMENTS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES

<table>
<thead>
<tr>
<th>Accountants' Report</th>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
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<tbody>
<tr>
<td>Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)</td>
<td>C101</td>
<td></td>
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<tr>
<td>Does the report adequately disclose all required matters and does it contain the elements required by professional standards, including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.19-.21, and .39-.41)</td>
<td>C102</td>
<td></td>
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<tr>
<td>Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)</td>
<td>C103</td>
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<tr>
<td>If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Sec. 100.20 and 9100.41-.45)</td>
<td>C104</td>
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<tr>
<td>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)</td>
<td>C105</td>
<td></td>
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<tr>
<td>Does each page of financial statements that have been compiled include a reference to the accountant's report? (AR Sec. 100.16)</td>
<td>C106</td>
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<table>
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<th>Financial Statements</th>
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<td>General</td>
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<tr>
<td>Are the financial statements suitably titled? (AU Sec. 623.07 and .24)</td>
<td>C107</td>
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<tr>
<td>Do the financial statements appear to be free of material error? (AR Sec. 100.13)</td>
<td>C108</td>
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<table>
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<tr>
<td>Is the presentation appropriate regarding:</td>
<td></td>
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<tr>
<td>Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)</td>
<td>C134</td>
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<tr>
<td>Valuation allowances? (AC Sec. V18)</td>
<td>C135</td>
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<tr>
<td>Effect of troubled debt restructuring? (D22)</td>
<td>C140</td>
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<tr>
<td>Are operating and capital leases properly accounted for? (L10)</td>
<td>C146</td>
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<tr>
<td>Other assets, including deferred charges?</td>
<td>C147</td>
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<tr>
<td>Maturities on notes payable and other debt? (AC Sec. C32.105)</td>
<td>C152</td>
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</tr>
<tr>
<td>Other liabilities, including compensation for future absences? (C44.104-108)</td>
<td>C159</td>
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</tr>
<tr>
<td>Treasury stock? (AC Sec. C23)</td>
<td>C161</td>
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<table>
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<th>Income Statement</th>
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<tbody>
<tr>
<td>Are the important components of the income statement separately stated?</td>
<td>C167</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

* 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.

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Is the accounting appropriate regarding:

<table>
<thead>
<tr>
<th>Method of income recognition; for example, long-term contracts and real estate transactions? (AC Secs. R10, Co4 and Co5)</th>
<th>C168</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</thead>
<tbody>
<tr>
<td>Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented and disclosed in accordance with the statement? (AC Sec. I 80)</td>
<td>C169</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Application of the equity method? (AC Sec. I 82.109)</td>
<td>C170</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Depreciation? (AC Sec. D40)</td>
<td>C175</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Deferred compensation agreements? (AC Sec. C38)</td>
<td>C177</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Accounting for income taxes? (AC Sec. I 27)</td>
<td>C181</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Discontinued operations? (AC Sec. I13)</td>
<td>C185</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Extraordinary items? (AC Sec. I17)</td>
<td>C186</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
<tr>
<td>Unusual or infrequent items, but not both? (AC Sec. I22)</td>
<td>C187</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
<td>REF.</td>
</tr>
</tbody>
</table>

**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)  
C188 | N/A | YES | NO | REF.  

Does it report cash provided or used by investing, financing, and operating activities? (AC Sec. C25.112-.124)  
C189 | N/A | YES | NO | REF.  

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)  
C190 | N/A | YES | NO | REF.  

Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)  
C191 | N/A | YES | NO | REF.  

Are the components of the cash flow statements shown at “gross” and not “net” amounts? (AC Sec. C25.109-.111A)  
C194 | N/A | YES | NO | REF.  

**Other**

If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format and statements consistent with the guide?  
C196 | N/A | YES | NO | REF.
V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers on which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

* The nature of the disposition of comments may vary, such as:
  * Note "resolved" and the manner of resolution.
  * Note "not significant" to indicate a "no" answer is appropriate, but that the manner is not significant enough to warrant the preparation of an MFC form.
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

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 paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.

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## PRP Section 5300

### General Review Engagement Checklist

#### ENGAGEMENT PROFILE

<table>
<thead>
<tr>
<th>Engagement Code No.</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>Date of Financial Statements*</td>
</tr>
<tr>
<td>Manager</td>
<td>Date of Report</td>
</tr>
<tr>
<td>Senior</td>
<td>Date Report Released</td>
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</table>

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 engagement was paid ________________

Key data reported on by this office for this engagement:

- Total assets $______________
- Equity $______________
- Net sales $______________
- Net income $______________

Major lines of business: Complex or troublesome engagement areas:

Review hours on this engagement:

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<tr>
<th>Owner</th>
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<tr>
<td>Manager (or equivalent)</td>
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<tr>
<td>Senior</td>
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<td>Other</td>
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<td>Total this office</td>
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<td>Total budgeted</td>
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Personnel Continuity:

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<th>Number of years in current position on the job</th>
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Date Engagement Review Performed ____________

Date Checklist Reviewed by Team Captain ________________

Reviewer ________________________________ Signature ____________________

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
General Review Engagement Checklist

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<td>III. Functional Areas</td>
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NOTE: This checklist has been updated through SSARS No. 7, SFAS No. 117, and FASB Interpretation No. 40.

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 in 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.

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<td><strong>Accountants’ Report</strong></td>
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<td>Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.33)</td>
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<td>Does the report adequately disclose all required matters and does it contain the elements required by professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.32-.41)</td>
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<td>Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)</td>
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<td>If the financial statements are presented in conformity with a comprehensive basis of accounting other than GAAP, is the basis disclosed in conformity with professional standards? (AR Sec. 9100.41-.45)</td>
<td>R104</td>
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<td>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)</td>
<td>R105</td>
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<td>Does each page of financial statements that have been reviewed include a reference to the accountant’s report? (AR Sec. 100.43)</td>
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<td><strong>Financial Statements and Notes</strong></td>
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<td>Are the financial statements suitably titled? (AU Sec. 623.07 and .24)</td>
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<td>Is the accounting appropriate and are the disclosures adequate regarding:</td>
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<td>Significant accounting policies? (AC Sec. A 10.105-.108)</td>
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<td>Accounting changes? (AC Sec. A06)</td>
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<td>Comparative financial statements? (AC Sec. F43)</td>
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<td>Business combinations? (AC Sec. B50)</td>
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<td>Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102)</td>
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<td>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)</td>
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*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.*
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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 economic dependence on one or more major customers? (AC Sec. R36.406)

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 Sec. N35)

With respect to contingencies and commitments:

Are loss contingencies accrued and/or disclosed 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)

Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AU Sec. 341.10 and .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, other than pensions, adequately disclosed? (AC Sec. P40.169)

Have postemployment and postretirement benefits, other than pensions, been properly accounted for? (AC Sec. P32 and P40)

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 presentations of futures contracts? (AC Sec. F80)

Are adjustments of financial statements for prior periods appropriate? (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)

<table>
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<th>QUES.</th>
<th>N/A</th>
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<td>R132</td>
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</table>

**Balance Sheet**

Is the accounting appropriate and are the disclosures adequate regarding:

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)
  
  - R133

- Valuation allowances? (AC Sec. V18)
  
  - R134

- Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)
  
  - R135

- Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders’ equity? (AC Sec. I80.103-.110)
  
  - R136

**Accounts and Notes Receivable:**

- Loans and related origination fees? (AC Secs. L20.104-.106 and .120)
  
  - R137

- Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)
  
  - R138

- Effects of troubled debt restructurings? (AC Secs. D22.121, .136-.137 and I08)
  
  - R139

- Other receivables?
  
  - R140

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor’s income recognition policy disclosed? (AC Sec. I08.118)

- R141

**Inventories? (AC Secs. B05.105 and I78)**

- R142

**Investments accounted for under the equity method? (AC Secs. I82.109-.110)**

- R143

**Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I13.108, I67 and I27)**

- R144

**Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Secs. L10.119 and .143-.149)**

- R145

**Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges? (AC Secs. I60, Co2.102-.111, and I27.140-.142)**

- R146

**Pledged assets? (AC Sec. C59.120)**

- R147
Related assets and liabilities may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101A)

Current liabilities? (AC Sec. B05.108-.109 and .118)

Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117)

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. 169)

Effect of troubled debt restructurings? (AC Sec. D22.121-.122)

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 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-.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?
Is the accounting appropriate and are the disclosures adequate regarding:

Method of income recognition, where appropriate; for example: long-term contracts and real estate transactions? (AC Secs. R10, Co4.110 and Co5)

Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. 180)

Application of the equity method? (AC Sec. I82.109)

Research and development costs? (AC Sec. R50)

Computer software costs? (AC Sec. Co2.110)

Capitalization of interest costs? (AC Sec. I67)

Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)

Depreciation? (AC Sec. D40)

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. L10.111-.112)

Income Taxes:

The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)

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 needs 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)

Discontinued operations? (AC Sec. I13)

Extraordinary items? (AC Sec. I17)
Unusual or infrequent items, but not both?

**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-.124)

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 the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-.111A)

Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I80.117)

**Other**

If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide?

**Summary**

Does it appear that disclosures in the financial statements are reasonably adequate?
II. GENERAL REVIEW PROCEDURES

<table>
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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? (AR Sec. 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 Sec. 100.44-.49):

- The reason given for the client's request, particularly the implications of a restriction on the scope of the audit, whether imposed by the client or by circumstances?
- 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?
- 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?

* 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.
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?

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?

Did the accountant consider whether these same circumstances would also preclude him/her from issuing a compilation report?

Do such determinations by the accountant appear to be proper?

Have all questions and/or exceptions 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 200.13-.15)

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PRP § 5300 Copyright © 1995, American Institute of Certified Public Accountants, Inc.
III. FUNCTIONAL AREAS

Indepedence (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 year's 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?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances, were the firm's conclusions reasonable and 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)

---

* 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.
Did the owner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?

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Does it appear that involvement by the owner and manager was both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

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Were all forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

- Planning checklist?
- Work programs?
- Financial statement disclosures?
- Working paper preparation and reading of financial statements?

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<th>QUES.</th>
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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?

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Were the firm's guidelines for the form and content of working papers for a review complied with?

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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?

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**Advancement** (QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

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**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)

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**Professional Development** (QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.20)

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</table>
IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated, or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
</tr>
</thead>
</table>

* 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.
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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</thead>
</table>

NOTE: Attach additional sheets if required.
V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with Statements on Standards for Accounting and Review Services? (ET 202)  
  YES*____ NO____

- The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified? (ET 203)  
  YES*____ NO____

- The review report was not appropriate in the circumstances?  
  YES*____ NO____

- The documentation on this engagement does not evidence compliance with professional standards?  
  YES ______ NO____

- The firm did not comply with its policies and procedures on this engagement in all material respects?  
  YES ______ NO____

---

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.
PRP Section 5400
General Audit Engagement Checklist

ENGAGEMENT PROFILE

Engagement Code No. ____________________________ Office ________________________________
Owner ____________________________ 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) ( ) special report
( ) consolidated financial statements ( ) interim reviews
( ) combined financial statements ( ) reportable conditions—material weaknesses
( ) subsidiary, division or branch ( ) other (explain)

Was the work performed at the request of another office? Yes__ No__
Date that the fee for the prior year's engagement was paid ________________________________

Key data reported on by this office for this engagement:

Total assets $ ____________________________
Equity $ ____________________________
Net sales $ ____________________________
Net income $ ____________________________

Major lines of business: Complex or troublesome audit areas:

List any management consulting services performed for the client during the period of the financial statements
being reported on and through the date of the auditor's report:
Personnel Continuity:

Number of years assigned to this job ................................................................. Owner ____________
Manager or equivalent ____________
Number of years in current position on the job ................................................................. ____________

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
Audit hours on this engagement:

<table>
<thead>
<tr>
<th>Owner</th>
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<th>During Field Work</th>
<th>After Completion of Field Work</th>
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<tr>
<td>Manager (or equivalent)</td>
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<td>Concurring Reviewer **</td>
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<td>Total this office</td>
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**LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER**

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

1. 
2. 
3. 
4. 
5. 

Date Engagement Review Performed __________ 
Date Checklist Reviewed by Team Captain __________

Reviewer ________________________________ 
Signature ________________________________

**Not applicable on reviews of non-SEC clients unless required by firm policy.
Checklist for Review of Audit Engagements

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<td>VII. Conclusions</td>
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NOTE: This checklist has been updated through SAS No. 72, FAS No. 117, and FASB Interpretation No. 40.

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)
EITF Emerging Issues Task Force pronouncement
ET Code of Professional Conduct in AICPA Professional Standards (vol. 2)
FAS Financial Accounting Standards Board Pronouncement
QC Quality Control Standards in AICPA Professional Standards (vol. 2)
SECPs SEC Practice Section References Manual
SOP AICPA Statement of Position
TPA AICPA Technical Practice Aids
NOTE: Because of the financial assistance that HUD projects receive, the HUD auditor must be fully aware of and comply with *Government Auditing Standards* (1988 revision), referred to as the “Yellow Book.” (A 1994 revision of the Yellow Book will become effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.) Reviewers of engagements involving HUD projects should use the *Supplemental Checklist for Review of Audits of HUD Engagements* (PRP Section 6080).
I. REPORT AND FINANCIAL STATEMENTS

NOTE: This is a highly summarized checklist taken from the AICPA financial reporting practice aid, Disclosure Checklists. All "no" answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm’s checklist is current, comprehensive, and appropriate for the engagement.

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Auditor’s Report

Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 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. 508.08 and .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 supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)

For special reports, have professional standards been complied with regarding:

- Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.01-.10)

- Specified elements, accounts or items of a financial statement? (AU Sec. 623.11-.18)

- Compliance with aspects of agreements or regulatory requirements related 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)

---

* 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

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Are the financial statements suitably titled? (AU Sec. 623.07 and .24)

Is the accounting appropriate and are the 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 auditor consider the need for combined financial statements? (AC Sec. C51.121-.122)

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-.115H)

Are required disclosures made concerning related-party transactions? (AC Sec. R36)

Are required disclosures made regarding economic dependence on one or more major customers? (AC Sec. S20.145)

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 accounted for? (AC Sec. F65)

Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)

With respect to contingencies and commitments:

- Are loss contingencies accrued and/or disclosed 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. 560.01-.09 and 561)

Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)
<table>
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**Balance Sheet**

Is the accounting appropriate and are the disclosures adequate regarding:

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)
  - A138
- Valuation allowances? (AC Sec. V18)
  - A139
- Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)
  - A140
- Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders’ equity? (AC Sec. I80.103-.110)
  - A141
- Accounts and Notes Receivable:
  - Loans and related origination fees? (AC Sec. L20.104-.106 and .120)
    - A142
  - Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)
    - A143
  - Effect of troubled debt restructurings? (AC Sec. D22.121 and .136-.137)
    - A144
  - Other receivables?
    - A145
- If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and the creditor’s income recognition policy disclosed? (AC Sec. I08.118)
  - A146
- Inventories? (AC Secs. B05.105 and I78)
  - A147

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On-Site Peer Review Engagement Checklists

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### Redemption requirements on capital stock for the next five years? (AC Sec. C32.105)

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### Income Statement

- Are the important components of the income statement separately disclosed?
- Is the accounting appropriate and are the disclosures adequate regarding:
  - Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? (AC Secs. R10 and Co5)
  - Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments? (AC Sec. 180)
  - Application of the equity method? (AC Sec. I82.109)
  - Research and development costs? (AC Sec. R50)
  - Computer software costs? (AC Sec. Co2.110)
  - Capitalization of interest costs? (AC Sec. I67)
  - Discount or premium on notes receivable or payable? (AC Sec. I69.108-.109)
  - Depreciation? (AC Sec. D40)
  - 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 expenses of lessees? (AC Sec. L10.111-.112)

### Income taxes:

- The types of temporary differences and carryforwards that cause significant portions of a deferred tax liability or asset? (AC Sec. I27.140-.142)
- 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 pre-tax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items needs to be disclosed.) (AC Sec. 127.146)
- Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes? (AC Sec. I27.147)

### Additional topics:

- Discontinued operations? (AC Sec. I13)
- Extraordinary items? (AC Sec. I17)

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**AICPA Peer Review Program Manual**

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Unusual or infrequent items, but not both? (AC Sec. I22)
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)
Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)
Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and did the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)
Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.127)
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. C25.125)
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 financial statements avoid reporting cash flow per share amounts? (AC Sec. C25.135)
Are the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-.111A)
Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification, and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I80.117)

**Other**

If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide?
## II. GENERAL AUDIT PROCEDURES

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| In planning the audit engagement, did the auditor properly consider:  
Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, laws and government regulations, and technological changes? (AU Secs. 311.03 and 801.11) | A300 | | | |
| Matters affecting the entity’s business, such as organization and types of products and services and contractual obligations? (AU Sec. 311.03-.04) | A301 | | | |
| Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08) | A302 | | | |
| Did the auditor:  
Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05) | A303 | | | |
| Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12) | A304 | | | |
| Design the audit to provide reasonable assurance of detecting errors and irregularities and direct-effect illegal acts that could be material to the financial statements? (AU Sec. 316.05 and 317.05) | A305 | | | |
| Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06) | A306 | | | |
| If the auditor succeeded another auditor, did the auditor:  
Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity’s management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06) | A307 | | | |
| Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08) | A308 | | | |
| Review the predecessor auditor’s working papers, or obtain satisfaction by other means? (AU Sec. 315.08) | A309 | | | |
| 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) | A310 | | | |
| Did the auditor:  
Obtain a sufficient understanding of the entity’s internal control structure to plan the audit? (AU Secs. 319.16 and 324.07-.10) | A311 | | | |

*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.
On-Site Peer Review Engagement Checklists

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**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 policies and procedures at the service organization that may affect the processing of the client’s transactions and internal control structure? (AU Sec. 324.06-.10)

If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor’s report that describes the results of the service auditor’s tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of the client’s controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)

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 when completed? (AU Sec. 339)
If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):

In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population? (AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)

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 evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)

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 in 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 evaluating whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)

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? (AU Secs. 326 and 342)  

Did the auditor obtain written timely and appropriate representations from management and was the representation letter properly dated? (AU Secs. 333)  

Did the auditor obtain timely and appropriate responses from the entity’s attorneys concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)  

Have all questions, exceptions, or notes been followed up and resolved?  

Was appropriate consideration given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Secs. 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. 316.22-.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 in accordance with professional standards? (AU Secs. 317.10-.11)  

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(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor’s attention were adequately communicated? (AU Sec. 317.17)  

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))  

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If the auditor’s substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)

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If the auditor’s substantial doubt was not alleviated, did the auditor’s report include an explanatory paragraph that adequately communicates the auditor’s substantial doubt (i.e., included the terms “substantial doubt” and “going concern”)? (AU Sec. 341.12-13)

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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)

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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)

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If a report was issued on reportable conditions, did it indicate that the purpose of the audit was to report on the financial statements and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and the restriction on distribution? (AU Sec. 325.11)

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Has the auditor complied with the requirement not to issue a letter stating that there were no reportable conditions? (AU Sec. 325.17)

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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)

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Timely inform the audit committee or others with equivalent authority and responsibility, if management did not respond appropriately or timely? (AU Sec. 722.21)

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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)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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</table>
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 an audit committee or some other formal oversight group, or the client is an SEC client, 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 memoranda or notations in the working papers? (AU Sec. 380.03)
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 below the name of the working paper area. (As indicated on page 5402, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an “X” below the area.)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
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</table>

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?

A401

Was due consideration given to cash transactions shortly before and shortly after the balance sheet date to determine whether they were recorded in the proper period?

A402

Do the working papers indicate that the following were considered:

- Confirmation of cash balances?
- Restrictions on cash balances?
- Confirmation of bank credit arrangements such as compensating balances?
- Confirmation of liabilities and contingent liabilities to banks?

A403
A404
A405
A406

Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)

A407

Receivables

☐ Not a key area

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.30)

A408

If confirmation work was performed prior to year-end, is there evidence that there was an adequate review of transactions from the confirmation date to the balance-sheet date?

A409

If a significant number and amount of accounts receivable were not confirmed, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.32)

A410

* Complete only the sections for the key audit areas selected for review.

** The N/A column should be used when the item either does not exist or is not material.

*** All “no” answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
Were significant notes receivable confirmed as of the balance-sheet date?

Were the results of confirmation and alternative procedures summarized and were appropriate conclusions included 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 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? (AC Sec. 169)

If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loans’ expected future cash flows discounted at the loans’ effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. 108.111)

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 (e.g., inventory in public warehouses, on consignment, etc.)? (AU Sec. 331.14)  

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<th>QUES.</th>
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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?  

<table>
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<th>QUES.</th>
<th>N/A</th>
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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?  

<table>
<thead>
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<th>QUES.</th>
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Were the results of inventory observations and other tests summarized and were appropriate conclusions drawn?  

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<th>QUES.</th>
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Where LIFO is used, did the auditor consider whether the client’s LIFO techniques are generally consistent with those in the AICPA’s issues paper on LIFO? (File 3175 November 30, 1984)  

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<th>QUES.</th>
<th>N/A</th>
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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?  

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<th>QUES.</th>
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Were inquiries concerning purchase and sales commitments made, including consideration of any possible adverse effects?  

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Were appropriate inventory cut-off tests performed?  

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Where applicable, were analytic procedures employed to check the overall valuation of inventories?  

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Do the working papers indicate that steps were performed to determine if any inventory is pledged?  

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Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319 and AC Sec. I78)  

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<th>QUES.</th>
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**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?  

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<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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Were securities either examined or confirmed? (AU Sec. 332.04)  

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<th>QUES.</th>
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Was the computation of realized and unrealized gains and losses tested by the auditor?  

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Do the working papers reflect that consideration was given to the appropriateness of the carrying values of securities and their classification? (AC Sec. I80)  

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<tr>
<th>QUES.</th>
<th>N/A</th>
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Was an investigation of possible impairment of the carrying value of long-term investments made? (AU Sec. 332.03 and EITF 85-39)  

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On-Site Peer Review Engagement Checklists

Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on their marketability?

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, etc.)?

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? A446
  Intangible assets? (AC Sec. I60) A447
  Deferred charges? A448
  Other? A449

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets? A450

Were reviews made of the continuing value of goodwill and other intangible assets? (AC Sec. I60) A451

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? A452

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Sec. 319 and AC Sec. I60) A453

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? A454
  Accumulated depreciation? A455

Do the tests appear adequate and were proper conclusions drawn with respect to:

  Additions (e.g., by examining supporting documents and/or physical inspection)? A456
  Retirements, etc. (including examining miscellaneous income, scrap sales)? A457

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The adequacy of the current and accumulated provisions for depreciation and depletion?  
Status of idle facilities? (EITF 84-28)  
Do the working papers indicate that the auditor considered whether 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)

<table>
<thead>
<tr>
<th>Liabilities</th>
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<tbody>
<tr>
<td>☐ Not a key area</td>
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<tr>
<td>Were accounts payable adequately tested for existence?</td>
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<tr>
<td>Was an adequate search performed for unrecorded liabilities at the balance sheet date?</td>
</tr>
<tr>
<td>Was the payables work coordinated with the testing of the purchases cut off?</td>
</tr>
<tr>
<td>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 P32)</td>
</tr>
<tr>
<td>Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures applied?</td>
</tr>
<tr>
<td>Were procedures performed to determine whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?</td>
</tr>
<tr>
<td>Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity’s debt obligations?</td>
</tr>
<tr>
<td>Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)</td>
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<thead>
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<th>Deferred Credits</th>
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<td>☐ Not a key area</td>
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<tr>
<td>Do the working papers indicate that:</td>
</tr>
<tr>
<td>The basis of deferring income is reasonable and consistent from year to year?</td>
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<tr>
<td>Deferrals have been established on a reasonable basis?</td>
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<th>Income Taxes</th>
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<td>☐ Not a key area</td>
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<tr>
<td>Were the current and deferred tax accrual accounts and related provisions analyzed and appropriate auditing procedures applied?</td>
</tr>
<tr>
<td>Were adequate auditing procedures performed regarding the adequacy of the valuation allowance related to any deferred tax assets?</td>
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</table>
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 that substantive tax matters applicable to this engagement were given adequate consideration?

**Commitments and Contingencies**

□ Not a key area

Do the working papers contain evidence of the following:

- Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?
- 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. 333 and 337.05)
- Procedures regarding other contingent liabilities (such as buy/sell agreements) or guarantees?

Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)

Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?

Was appropriate consideration given to issues related to environmental matters, including the requirements of SEC SAB No. 92 and EITF 93-5?

**Capital Accounts**

□ Not a key area

Were changes in capitalization checked to authorizations?

If applicable, was confirmation received from the registrar, or was examination made of stock certificate records?

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)

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### Income and Expenses

- □ Not a key area

Were tests of payrolls, including account distribution, made where appropriate?  

| A489  |     |     |    |     |

Do the tests of the pension and profit sharing (including the effects of ERISA) expenses and liabilities appear adequate? (AC Sec. P16)  

| A490  |     |     |    |     |

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 investigated and resolved? (AU Sec. 329)  

| A491  |     |     |    |     |

Was adequate consideration given to:

- The client's revenue recognition policy? (AC Sec. A10.105)  
  | A492  |     |     |    |     |

- Income recognition on transactions where the earnings process was not complete?  
  | A493  |     |     |    |     |

- Unusual sales transactions?  
  | A494  |     |     |    |     |

- Income recognition when the right of return exists? (AC Sec. R75.105-.109)  
  | A495  |     |     |    |     |

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)  

| A496  |     |     |    |     |

### Other

- □ Not a key area

Have leases been reviewed to determine that capital, operating, sales, and direct financing leases have been properly accounted for? (AC Sec. L10)  

| A497  |     |     |    |     |

Were appropriate procedures applied to supplementary information? (AU Sec. 551.06 and .08)  

| A498  |     |     |    |     |

Review of Interim Financial Information:

- Were appropriate procedures performed? (AU Sec. 722.12-.19)  
  | A499  |     |     |    |     |

  - If required by firm policy, was a checklist containing the procedures used?  
    | A500  |     |     |    |     |

- If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336)  
  | A501  |     |     |    |     |

- Were specific procedures for determining the existence of related parties and examining identified related-party transactions applied? (AU Sec. 334)  
  | A502  |     |     |    |     |
If consolidated statements are presented:

Have intercompany balances and transactions been eliminated?  
(AC Sec. C51.109)  

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If the financial reporting periods of one or more subsidiaries differ from that of the parent, was recognition given to the effects of intervening events that materially affect financial position, results of operations or cash flows? (AC Sec. C51.107)  

| A504  |     |     |    |     |

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? (TPA 6700.01)  

| A505  |     |     |    |     |

If FAS No. 116 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), did the auditor determine whether contributions made were recognized as expenses in the period made and measured at the fair values of the assets given, or if made in the form of a settlement or cancellation of a donee’s liabilities, at the fair value of the liabilities cancelled? (AC Sec. C67.114)  

| A506  |     |     |    |     |
### 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)

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Have personnel been appropriately advised of the need to observe independence requirements concerning the client and any related nonclient parent, investor, investee, subsidiary or affiliate? (QC Sec. 90.10)

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Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

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</tr>
</tbody>
</table>

For non-SEC clients, were the fees (billed/unbilled) for prior years' services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-104)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A604</td>
<td></td>
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</tbody>
</table>

For SEC clients, if the fees (billed/unbilled) for prior years' services were not paid prior to the commencement of the current engagement, were the SEC's rules for unpaid professional fees adhered to?

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A605</td>
<td></td>
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</tbody>
</table>

#### 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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>A606</td>
<td></td>
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</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>A607</td>
<td></td>
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</tbody>
</table>

#### Consultation (QC Sec. 10.07c)

Was there appropriate consultation and documentation:

- In situations specified by firm policy?

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>A608</td>
<td></td>
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</tbody>
</table>

- Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>A609</td>
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</tbody>
</table>

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>A610</td>
<td></td>
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</tbody>
</table>

Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A611</td>
<td></td>
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</table>

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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>A612</td>
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</tbody>
</table>

* 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.

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PRP § 5400
### Supervision (QC Sec. 10.07d)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</thead>
<tbody>
<tr>
<td>A613</td>
<td></td>
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</tbody>
</table>

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?

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)

<table>
<thead>
<tr>
<th>A627</th>
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<tbody>
<tr>
<td>A628</td>
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</tbody>
</table>
**Professional Development** (QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>A629</td>
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</table>
### V. AUDITS OF SEC ENGAGEMENTS
(As defined in § 1000.38 of the SECPS Reference Manual)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF. **</th>
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<tbody>
<tr>
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<tr>
<td>A702</td>
<td></td>
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</tr>
</tbody>
</table>

If required by firm policy, was an SEC checklist or other specialized checklist used?

**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 management consulting services were performed during the year under audit, was the firm in compliance with the Section’s requirements:

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>A714</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Proscribing the performance of certain management consulting services? (SECPS Sec. 1000.08h)

| A714  |     |     |    |

Requiring an annual report to the audit committee or board of directors of the client, describing the types of such services rendered and the amount of the related fees received? (Such matters may be reported orally; if so, is the communication documented in the working papers?) (SECPS Sec. 1000.08i)

| A715  |     |     |    |

If the client-auditor relationship with an SEC registrant subsequently ceased, was the Office of the Chief Accountant of the SEC notified within 5 business days, in conformity with the requirements of the SEC Practice Section? (SECPS Sec. 1000.08m)

| A716  |     |     |    |

If the client-auditor relationship with an SEC registrant subsequently ceased, has the auditor sent a letter to the registrant agreeing or disagreeing with the client’s reasons for the change in auditors as stated on Form 8-K within the required timeframe? (See Regulation S-K, Item 304—Changes in and disagreements with accountants on accounting and financial disclosure.)

| A717  |     |     |    |
VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated, or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

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.

PRP § 5400
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
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</table>

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PRP § 5400
<table>
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<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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</table>

PRP § 5400

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<table>
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<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

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PRP § 5400
VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards? (AU 390 and ET 202)
  YES*  NO

- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects, and the auditor's report was not appropriately modified? (AU 561 and ET 203)
  YES*  NO

- The auditor's report was not appropriate in the circumstances?
  YES*  NO

- The documentation on this engagement does not support the firm's opinion on the financial statements?
  YES  NO

- The firm did not comply with its policies and procedures on this engagement in all material respects?
  YES  NO

* If this question is answered "yes", see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.

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PRP Section 5500

Governmental Audit Engagement Checklist

Instructions for Use of Checklist for Review of Audit Engagements of State or Local Governmental Entities, Including Those Receiving Federal Financial Assistance

This checklist was developed for use by reviewers of audits of state and local governments, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of state and local governmental units. This checklist can be used in reviewing the audit of the general purpose financial statements, the comprehensive annual financial report, or component unit financial statements. The reviewer, however, should recognize that this checklist does not address certain items contained in the comprehensive annual financial report, such as the introductory section and nonfinancial statistical information.

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. The 1994 edition of the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units, among other things, incorporated the information in SOP 92-7 and is effective for audits of financial statements for fiscal periods ending after September 15, 1994.

This checklist contains an appendix A, which is devoted solely to the unique requirements of Government Auditing Standards. This checklist also contains an appendix B devoted solely to the special requirements of the Single Audit Act of 1984 (the Single Audit Act) and is based on the requirements established in the Office of Management and Budget’s Circular No. A-128 (OMB A-128). Appendix A should always be completed when Appendix B is completed because the Single Audit Act requires that the audit be conducted in accordance with Government Auditing Standards.

To assist the reviewer in summarizing “no” answers in the Summary Checklist for Reviews of Audit Engagements, a column has been added containing sequential numbers referring to each question. Question numbers prefixed with the letter “A,” such as “A101,” refer to questions so numbered in the Checklist for Review of Audit Engagements. Question numbers prefixed with the letter “G,” such as “G101,” refer to questions on matters unique to governmental entities. Reviewers should 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

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PRP § 5500
In reviewing those engagements, reviewers should use either appendixes 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 defer the effective date of GASB No. 11 because of GASB No. 17.

Note: This checklist has been updated through SAS No. 72, SFAS No. 117, FASB Interpretation 40, GASB No. 20, and the GAO’s Government Auditing Standards (1988 Revision) referred to as the “Yellow Book.” (The GAO Yellow Book 1994 revision supercedes the 1988 edition, and is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.)

Explanation of References:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
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<tbody>
<tr>
<td>AC</td>
<td>Reference to section number in FASB Accounting Standards Current Text</td>
</tr>
<tr>
<td>ACNO</td>
<td>AICPA Audit and Accounting Guide Audits of Certain Nonprofit Organizations</td>
</tr>
<tr>
<td>ASLGU</td>
<td>AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (May 1, 1994)</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>EITF</td>
<td>Emerging Issues Task Force Abstracts</td>
</tr>
<tr>
<td>ET</td>
<td>Code of Professional Conduct AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>GA</td>
<td>Generally Accepted Accounting Practices</td>
</tr>
<tr>
<td>GAO</td>
<td>Government Auditing Standards Revision (1988), United States General Accounting Office</td>
</tr>
<tr>
<td>GASB</td>
<td>Codification of Governmental Accounting and Financial Reporting Standards (as of June 30, 1994)</td>
</tr>
<tr>
<td>QC</td>
<td>Quality Control Standards in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>SECPS</td>
<td>SEC Practice Section Reference Manual</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
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</table>
### ENGAGEMENT PROFILE

<table>
<thead>
<tr>
<th>Engagement Code No.</th>
<th>Office</th>
<th>Owner</th>
<th>Date of Financial Statement</th>
<th>Manager</th>
<th>Date of Report</th>
<th>Concurring Reviewer</th>
</tr>
</thead>
</table>

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:

Audit hours on this engagement:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Prior to Commencement of Field Work</th>
<th>During Field Work</th>
<th>After Completion of Field Work</th>
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<tbody>
<tr>
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<tr>
<td>Manager (or equivalent)</td>
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<tr>
<td>Senior</td>
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<tr>
<td>Concurring Reviewer **</td>
<td></td>
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<td>Other</td>
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<tr>
<td>Total this office</td>
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</tbody>
</table>

Total budgeted .................................................................

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* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
** Not applicable unless required by firm policy.
*** This amount should include "pass through" federal assistance received indirectly from another state or local government.
LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, 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 State or Local Governmental Entities

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<td>Financial Statements and Notes</td>
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<td>Inventories</td>
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<td>Investments</td>
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<tr>
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<td>5526</td>
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<tr>
<td>Property, Plant and Equipment</td>
<td>5526</td>
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<tr>
<td>Liabilities</td>
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<td>Deferred Revenue</td>
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<td>Independence</td>
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<td>Acceptance and Continuance of Clients</td>
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<tr>
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<tr>
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<tr>
<td>VIII. Conclusions</td>
<td>5542</td>
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</tbody>
</table>
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

Does (do) 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)  
G101 ______ ______ ______ ______

Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 and 530)  
A101 ______ ______ ______ ______

Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 508.08-.10 and 623)  
A102 ______ ______ ______ ______

Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08)  
A103 ______ ______ ______ ______

If the financial statements of a prior period have been audited by a predecessor auditor whose report is not presented, has the successor auditor included the appropriate reference to the predecessor auditor in the introductory paragraph? (AU Sec. 508.83)  
A104 ______ ______ ______ ______

If supplemental information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)  
A105 ______ ______ ______ ______

Financial Statements and Notes

General

Are the financial statements suitably titled? (AU Sec. 623.07 and .24)  
A112 ______ ______ ______ ______

Are the following general purpose or component unit financial statements presented:

- Combined balance sheet—all fund types and account groups? (GASB Sec. 2200.108b.(2)(a))  
  G102 ______ ______ ______ ______

- Combined statement of revenues, expenditures, and changes in fund balances—all governmental fund types and expendable trust funds? (GASB Sec. 2200.108b.(2)(b))  
  G103 ______ ______ ______ ______

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

PRP § 5500  
Copyright © 1995, American Institute of Certified Public Accountants, Inc.
<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined statement of revenues, expenditures, and changes in fund balances—budget and actual—general and special revenue fund types (and similar governmental fund types for which annual budgets have been legally adopted)? (GASB Sec. 2200.108b.(2)(c))</td>
<td>G104</td>
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<tr>
<td>Combined statement of revenues, expenses, and changes in retained earnings (or equity)—all proprietary fund types and similar trust funds? (GASB Sec. 2200.108b.(2)(d))</td>
<td>G105</td>
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<tr>
<td>Combined statement of cash flows—all proprietary fund types and nonexpendable trust funds? (GASB Sec. 2200.108b.(2)(e))</td>
<td>G106</td>
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<tr>
<td>Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the notes? (GASB Sec. 2100)</td>
<td>G107</td>
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<tr>
<td>If totals by account are presented in the general purpose financial statements, are the totals noted as memorandum only? (GASB Sec. 2200.117)</td>
<td>G108</td>
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<tr>
<td>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)</td>
<td>G109</td>
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<tr>
<td>Do interfund receivables equal interfund payables or are the differences explained in the notes? (GA)</td>
<td>G110</td>
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<tr>
<td>Are Interfund operating transfers reported in the “Other Financing Sources” section in the Statement of Revenues and Expenditures and residual equity transfers reported as additions or deductions from beginning fund balances? (GASB Sec. 1800.107)</td>
<td>G111</td>
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<tr>
<td>Are special assessment receivables offset by deferred revenue when appropriate? (GASB Sec. 540.115)</td>
<td>G112</td>
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<tr>
<td>Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectible receivables? (GASB Sec. P70 and S10)</td>
<td>G113</td>
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<tr>
<td>If separate financial statements of a component unit are issued, is the relationship of the component unit to the reporting or oversight entity disclosed? (GASB Sec. 2600.128)</td>
<td>G114</td>
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<tr>
<td>If a general fund is presented: Are the statements prepared on the modified accrual basis? (GASB Sec. 1600.105)</td>
<td>G115</td>
<td></td>
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<tr>
<td>Are significant sources of general fund revenues disclosed? (GASB Sec. 1800.115)</td>
<td>G116</td>
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<tr>
<td>Are expenditures classified by function? (GASB Sec. 1800.116-.117)</td>
<td>G117</td>
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</tbody>
</table>

AICPA Peer Review Program Manual PRP § 5500
If special revenue funds are presented:
  Are the statements prepared on the modified accrual basis?  
  (GASB Sec. 1600.105)  
  G118

  Do the statements disclose the significant revenues and expenditures?  
  (GASB Sec. 1800.114-.121)  
  G119

If debt service funds are presented:
  Are the statements prepared on the modified accrual basis?  
  (GASB Sec. 1600.105)  
  G120

  Do the statements disclose the significant revenues and expenditures?  
  (GASB Sec. 1800.114-.121)  
  G121

If capital project funds are presented:
  Are the statements prepared on the modified accrual basis?  
  (GASB Sec. 1600.105)  
  G122

  Do the statements disclose the significant revenues and expenditures?  
  (GASB Sec. 1800.114-.121)  
  G123

If enterprise funds are presented:
  Are the statements prepared on the accrual basis?  
  (GASB Sec. 1600.125)  
  G124

  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)  
  G125

  Are the restricted assets and liabilities payable from restricted assets required to be segregated for debt service, separately disclosed?  
  (ASLGU, Ch.11, par. 27)  
  G126

  Are operating and nonoperating revenues and expenses separately classified? (GASB Sec. 1800.122)  
  G127

  Are property, plant and equipment properly reported on the balance sheet?  
  (GASB Secs. 1300.102b and 1400.102-.103)  
  G128

If internal service funds are presented:
  Are the statements prepared on the accrual basis?  
  (GASB Sec. 1600.125)  
  G129

  Do the financial statements present the net billings to other funds as revenues and the related costs as expenses?  
  (GASB Sec. 1800.102)  
  G130

  Are long-term advances segregated from current amounts payable to other funds?  
  (GASB Sec. 1800.106)  
  G131
<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
</table>
| Are property, plant and equipment properly reported on the balance sheet?  
(GASB Secs. 1300.102b and 1400.102-.103) | G132 | ___ | ___ | ___ |

If nonexpendable and/or pension 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-.121)  

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)  

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)  
Does the ending fund balance of the debt service fund agree with Amount Available for Debt Service in the General Long-Term Debt Account Group?  
(GASB Sec. 1500.105)  
Are component units properly reported as blended in or discrete in accordance with GASB 14?  

Have all discretely presented component units been reported in a separate column or columns to the right of all funds and account groups of the primary government?  
(GASB 2600.107, .108 and .111)  
Does the asset side of the balance sheet not include the term "Reserves"?  
(GASB 1800.124)
Are the governmental funds long-term loans receivable offset by a reserve of fund balance? (GASB Sec. 1800.123)

G146

Are amounts of any excesses of expenditures over appropriations at the legal level of budgetary control in individual funds disclosed? (GASB Sec. 2300.106)

G147

Questions G148 through G175 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation for each fund or account group. (GASB Sec. 2200)

Are the following financial statements presented, if necessary:

<table>
<thead>
<tr>
<th>General fund:</th>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<tr>
<td>Balance sheet?</td>
<td>G148</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balance?</td>
<td>G149</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balance—budget vs. actual?</td>
<td>G150</td>
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<table>
<thead>
<tr>
<th>Special revenue funds:</th>
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<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balance?</td>
<td>G152</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances—budget vs. actual?</td>
<td>G153</td>
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<table>
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<tr>
<th>Debt service funds:</th>
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<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances?</td>
<td>G155</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances—budget vs. actual?</td>
<td>G156</td>
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</table>

<table>
<thead>
<tr>
<th>Capital project funds:</th>
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<tbody>
<tr>
<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances?</td>
<td>G158</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances—budget vs. actual?</td>
<td>G159</td>
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<th>Enterprise funds:</th>
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<tr>
<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenses and changes in retained earnings?</td>
<td>G161</td>
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<tr>
<td>Statement of cash flows?</td>
<td>G162</td>
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</tbody>
</table>

1 This question is applicable for those funds required to adopt an annual budget.
Governmental Audit Engagement Checklist

<table>
<thead>
<tr>
<th>Internal service funds:</th>
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<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenses and changes in retained earnings?</td>
<td>G164</td>
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<tr>
<td>Statement of cash flows?</td>
<td>G165</td>
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<table>
<thead>
<tr>
<th>Nonexpendable and pension trust funds:</th>
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<th>YES</th>
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<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenses and changes in fund balances?</td>
<td>G167</td>
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<tr>
<td>Statement of cash flows? ²</td>
<td>G168</td>
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</table>

<table>
<thead>
<tr>
<th>Agency funds:</th>
<th>QUES.</th>
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</thead>
<tbody>
<tr>
<td>Balance sheet?</td>
<td>G169</td>
<td></td>
<td></td>
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<tr>
<td>Combining statement of changes in assets and liabilities, if appropriate?</td>
<td>G170</td>
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</table>

<table>
<thead>
<tr>
<th>Expendable trust funds:</th>
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<td>Balance sheet?</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances?</td>
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<tr>
<td>Statement of revenues, expenditures and changes in fund balances—budget vs. actual? ³</td>
<td>G173</td>
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</tbody>
</table>

If required, is a statement of changes in general fixed assets presented? (GASB Sec. 2200.109b.(4))

If required, is a statement of changes in general long-term debt presented? (GASB Sec. 2200.109b.(4))

<table>
<thead>
<tr>
<th>Other Note Disclosures</th>
</tr>
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<tbody>
<tr>
<td>Are the presentations appropriate and are the disclosures adequate regarding the following significant accounting policies:</td>
</tr>
<tr>
<td>Definition of the governmental reporting entity, the criteria used to determine the scope of the reporting entity, and specific reasons for excluding agencies? (GASB Sec. 2600.124)</td>
</tr>
<tr>
<td>Are individual component unit disclosures included within the General Purpose Financial Statements, as well as a brief description of the component units, their relationship to the primary government and how the separate financial statements for the individual component units may be obtained (GASB Secs. 2600.114 and .124)?</td>
</tr>
<tr>
<td>Basis of accounting applied to each fund type? (GASB Sec. 1600)</td>
</tr>
<tr>
<td>Revenue recognition policies, including:</td>
</tr>
<tr>
<td>Definitions of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types? (GASB Sec. 1600.102-.105)</td>
</tr>
</tbody>
</table>

² GASB No. 9 does not require a statement of cash flows by pension trust funds.

³ This question is applicable for those funds required to adopt an annual budget.
<table>
<thead>
<tr>
<th>QUES.</th>
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<th>NO</th>
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<td>A114</td>
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</table>

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)
<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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<tr>
<td>Retirement plans? (GASB Sec. 2300.106g and .107g)</td>
<td>A130</td>
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<tr>
<td>Postemployment benefits other than pensions? (GASB Sec. P50.105-.107)</td>
<td>A131</td>
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<tr>
<td>Deferred compensation plans adopted under IRC 457? (GASB Sec. 2300.107u)</td>
<td>G197</td>
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<tr>
<td>Related-party transactions? (GASB Sec. 2300.107g)</td>
<td>A121</td>
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<tr>
<td>Nonmonetary transactions? (AC Secs. N35)</td>
<td>A125</td>
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<tr>
<td>Segment information for enterprise funds? (GASB Sec. 2500.105)</td>
<td>A134</td>
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<tr>
<td>Capital leases of lessees? (GASB Sec. 2300.107i)</td>
<td>G198</td>
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<tr>
<td>Operating leases and rent expense of lessees? (GASB Sec. 2300.106j)</td>
<td>G199</td>
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</tr>
<tr>
<td>Detail of the government’s property tax calendar, including the lien, levy, due and collection dates? (GASB Secs. 2300.107b and P70.109)</td>
<td>G200</td>
<td></td>
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</tr>
<tr>
<td>Material noncompliance with finance-related legal and contractual provisions, including instances concerning budget amendments, expenditures exceeding appropriations, and debt exceeding legal limitations? (GASB Sec. 2300.106h and n)</td>
<td>G201</td>
<td></td>
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<tr>
<td>Valuation allowances? (AC Sec. V18)</td>
<td>A139</td>
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<tr>
<td>Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)</td>
<td>A140</td>
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<tr>
<td>Deposits with financial institutions and investments, including risk categories, uninsured deposits, and other disclosures required by professional standards? (GASB Sec. 2300.10b and c)</td>
<td>G202</td>
<td></td>
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<tr>
<td>Do the notes define cash and cash equivalents consistent with GASB Statement No. 9? (GASB Sec. 2450.106)</td>
<td>G203</td>
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</tr>
<tr>
<td>Do the notes disclose the amount of total bank balance classified into the three categories of credit risk? (GASB Sec. C20.106)</td>
<td>G204</td>
<td></td>
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</tr>
<tr>
<td>Do the notes disclose the carrying amount and market value of investments as of balance-sheet date by investment type and in total with types of investments classified into the three categories of credit risk? (GASB Sec. I50.164)</td>
<td>G205</td>
<td></td>
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<tr>
<td>Terms or circumstances concerning repurchase or reverse repurchase agreements? (GASB Secs. 2300.106c and 2300.107v)</td>
<td>G206</td>
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<td>Receivables:</td>
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<tr>
<td>Loans or advances to other funds of the governmental units? (GASB Sec. 1300.110)</td>
<td>G207</td>
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<tr>
<td>Taxes receivable? (GASB Secs. P70.106-.107 and S10.102-.104)</td>
<td>G208</td>
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<tr>
<td>Grants entitlements and other receivables? (GASB Sec. G60.112)</td>
<td>G209</td>
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<tr>
<td>Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)</td>
<td>QUES.</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
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<td>A143</td>
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<tr>
<td>Effects of troubled debt restructurings? (AC Sec. D22.121 and .136-.137)</td>
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<td>A145</td>
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<tr>
<td>Other receivables?</td>
<td>A147</td>
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<td>Inventories? (AC Secs. B05.105 and I78)</td>
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<td>Joint ventures and other investments? (GASB Sec. 2300.107j)</td>
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<td>G210</td>
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<td>Pooled cash and investment accounts? (GASB Sec. 2300.106b and c)</td>
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<td>G211</td>
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<td>If this entity has public entity risk pools (cooperative group of governmental entities) did the entity:</td>
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<tr>
<td>Recognize pool premiums as revenue over the contract period? (GASB Sec. Po 20.115-.117)</td>
<td>G212</td>
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<tr>
<td>Recognize claims costs in the period in which the event triggers coverage under the policy? (GASB Sec. Po 20.118-.122)</td>
<td>G213</td>
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<tr>
<td>Report the estimated loss of a claim if it is both probable and reasonably estimable? (GASB Sec. Po 20.123)</td>
<td>G214</td>
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<tr>
<td>Fixed assets, including changes during the period and capitalized interest? (GASB Secs. 1400.111 and 2300.106l)</td>
<td>G215</td>
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<tr>
<td>Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)</td>
<td>A150</td>
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<tr>
<td>Are the operating lease revenues accounted for under the accrual method? (GASB Sec. L20)</td>
<td>G216</td>
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<tr>
<td>For leases entered into beginning June 30, 1990, are operating leases with scheduled rent increases accounted for in a systematic and rational manner? If terms are artificially low, has the entity used either the straightline or estimated fair value method? (GASB Sec. L20)</td>
<td>G217</td>
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<tr>
<td>Other assets including intangible assets, unamortized computer software costs, and deferred charges? (AC Secs. 160 and Co 2.106-.110)</td>
<td>A151</td>
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<tr>
<td>Pledged assets? (AC Sec. C59.120)</td>
<td>A152</td>
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<tr>
<td>Related assets and liabilities may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10.101A)</td>
<td>A153</td>
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<tr>
<td>Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.117, .138-.139)</td>
<td>A155</td>
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<tr>
<td>Notes payable, bond, tax, and revenue anticipation notes, and other debt:</td>
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<tr>
<td>Maturities and rates? (AC Sec. C32.105)</td>
<td>A156</td>
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<tr>
<td>Other terms and covenants? (AC Sec. C59.120)</td>
<td>QUES.</td>
<td>N/A</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>Special assessment debt and related activities? (GASB Sec. 2300.107w)</td>
<td></td>
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<tr>
<td>Effect of interest rates that do not reflect market rates? (AC Sec. I69)</td>
<td>A157</td>
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<tr>
<td>Effect of troubled debt restructurings? (AC Sec. D22.121)</td>
<td>A158</td>
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<tr>
<td>Effect of early extinguishment of debt? (AC Secs. D22.121 and I17.104)</td>
<td>A159</td>
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<tr>
<td>Loans or advances from other funds of the governmental unit? (GASB Sec. 1300.110 and ASLGU, Ch. 8, par. 21)</td>
<td>G218</td>
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<tr>
<td>Debt service requirements to maturity? (GASB Sec. 2300.106i)</td>
<td>G219</td>
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<tr>
<td>Changes during the period including advance refundings resulting in defeasance of debt? (GASB Sec. 2300.106m)</td>
<td>G220</td>
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<tr>
<td>Unpaid debt that has been fully defeased? (GASB Sec. D20.111-.114)</td>
<td>G221</td>
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<tr>
<td>Nature of any restrictions on assets related to debt? (ASLGU, Ch. 11, par. 27)</td>
<td>G222</td>
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<tr>
<td>Demand bonds? (GASB Sec. 2300.107x)</td>
<td>G223</td>
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<tr>
<td>Compensation for future absences and special termination benefits for employees? (GASB Sec. 2300.107k and GASB Sec. C60)</td>
<td>G224</td>
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<tr>
<td>Designation or reservations or other restrictions of fund balances or retained earnings? (ASLGU, Ch. 12)</td>
<td>G225</td>
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<tr>
<td>Revenues, expenses and expenditures:</td>
<td>G226</td>
<td></td>
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<tr>
<td>Grants, entitlements, and shared revenue? (GASB Sec. 2300.107m)</td>
<td>G227</td>
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<tr>
<td>Investment income?</td>
<td>G228</td>
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<tr>
<td>Interest cost? (AC Sec. I67)</td>
<td>A177</td>
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<td>Depreciation? (AC Sec. D40)</td>
<td>A179</td>
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<td>Discontinued operations? (AC Sec. I13)</td>
<td>A189</td>
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<tr>
<td>With respect to contingencies and commitments:</td>
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<tr>
<td>Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)</td>
<td>A126</td>
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<tr>
<td>Are other contingencies and commitments adequately disclosed (for example, construction commitments)? (AC Secs. C32.102-.105 and C59.118-.120)</td>
<td>A127</td>
<td></td>
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<tr>
<td>Deficit fund balances or retained earnings of individual funds? (GASB Sec. 2300.106o.)</td>
<td>G229</td>
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<tr>
<td>Interfund receivables and payables? (GASB Sec. 2300.106p)</td>
<td>G230</td>
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</tbody>
</table>
On-Site Peer Review Engagement Checklists

Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed? (GASB Sec. 2300.107s)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<td>G231</td>
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</table>

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. 2300.106f)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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**Statement of Cash Flows**

Is a statement of cash flows presented for each period as appropriate? (GASB Sec. 2450.103)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<td>A193</td>
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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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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</table>

Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents, and did the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (GASB Sec. 2450.105)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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Does it provide a reconciliation between operating income and net cash flow from operating activities? (AC Sec. C25.127)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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Are noncash investing, capital and financing activities disclosed? (GASB Sec. 2450.134)

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<th>QUES.</th>
<th>N/A</th>
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</table>

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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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Are the components of the cash flow statement shown at "gross" and not "net" amounts? (AC Sec. C25.109-.111A and GASB Sec. 2450.109-.111)

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<tr>
<th>QUES.</th>
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Are the statement presentations and disclosures generally consistent with GASB pronouncements and the AICPA's Audits of State and Local Governmental Units?

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<tr>
<th>QUES.</th>
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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 the 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 environment 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 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 the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05, and 317.05)

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 could be material to the financial statements? (AU Sec. 316.05 and 317.05)

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 another auditor, did the auditor:

* 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.
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)

Review the predecessor auditor’s working papers, or obtain satisfaction by other means? (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 Secs. 319.16 and 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 control structure policies and procedures at the service organization that may affect the client’s transactions and internal control structure? (AU Sec. 324.06-.10)

If the auditor decided to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor’s report that describes the results of the service auditor’s tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of client’s controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)

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. 43)

If the principal auditor did not refer to the other auditor in his or her report, did the principal auditor perform one or more of the additional procedures contained in AU 543.12 to assess the adequacy of the work performed by the other auditor? (AU Sec. 543.12-.13)

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 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 when completed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):

In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population? (AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)

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 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, preliminary judgments about materiality levels, 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 in 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 evaluating whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatement resulting from all audit sampling applications and to known misstatements from non-sampling applications? (AU Sec. 350.30)

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 Secs. 326 and 342)

Did the auditor obtain written timely and appropriate representations from management (including, if applicable, industry specific and/or Single Audit Act representations as required by paragraphs 19 and/or 91 of SAS 68) and was the representation letter properly dated? (AU Secs. 333 and 801.19 and .91)

Did the auditor obtain timely and appropriate responses from the entity’s attorney concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)

Have all questions, exceptions, or notes, been followed up and resolved, (including consideration of views obtained from responsible officials of the entity concerning the auditor’s findings)?

Was appropriate consideration given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)

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:

Communicate to management about an audit requirement that may not be encompassed in the terms of the engagement, and that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing—if the communication is oral, the auditor should document the communication in the working papers) (AU Sec. 801.04-.05) 

Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.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 in accordance with professional standards? (AU Secs. 317.10-.11) 

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(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor’s attention were adequately communicated? (AU Sec. 317.17) 

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 of suspected illegal acts to the appropriate management level above the level of involvement? (AU Secs. 317.17 and 801.31-.32) 

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))

AICPA Peer Review Program Manual

PRP § 5500
If the auditor's substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)

If the auditor's substantial doubt was not alleviated, did the auditor's report include an explanatory paragraph that adequately communicates the auditor's substantial doubt (i.e., include the terms "substantial doubt" and "going concern")? (AU Sec. 341.12-.13)

Were all reportable conditions and material weaknesses in internal controls and identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented? (AU Sec. 801.18)

Appropriately reported in accordance with applicable standards? (AU Sec. 325)

Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? 4 (AU Sec. 561)

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 an audit committee or some other formal oversight group, did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)

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 memoranda or notations in the working papers? (AU Sec. 380.03)

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4 This question also applies to circumstances when, subsequent to the date of the audit report on the general purpose financial statements, the auditor, while performing procedures to support the other reports required by the Single Audit Act, identifies additional information that existed at the report date.
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 such financial statement assertions. If an audit area is not reviewed because it does not represent a key area for that engagement, the reviewer should place an “X” in the box below the name of the working paper area. (As indicated on page 5504, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an “X” below the area.)

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<th>QUES.</th>
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**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? A401

Was due consideration given to cash transactions shortly before and shortly after the balance-sheet date to determine whether they were recorded in the proper period? A402

Do the working papers indicate that the following were considered:

- Confirmation of cash balances? A403
- Restrictions on cash balances? A404
- Confirmation of bank credit arrangements such as compensating balances? A405
- Confirmation of liabilities and contingent liabilities to banks? A406
- Approval of interfund cash transactions? G301
- Verification of collateral required of depository institutions for public funds? (GASB Sec. 150.107-.111) G302
- Compliance with the laws and regulations governing the deposit of public funds? (GASB Sec. C20) G303
- Determination that all cash accounts have been identified and appropriately recorded? (ASLGU, Ch. 7, pars. 6-16) G304
- Review of repurchase security transactions for consistency with the disclosures of their terms and conditions? (GASB Sec. 150.159-.160) G305
- Are cash overdrafts from pooled cash and investments accounted for as an interfund receivable or payable? (ASLGU, p. 55, par. 78) G306
- Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319) A407

* The N/A column should be used when the item either does not exist or is not material.

** All “no” answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
Receivables

- Not a key area.

Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.35)

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 alternative auditing procedures were performed? (AU Sec. 330.31-.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 included 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 receivables and the related revenues were recorded in the correct period? (ASLGU, Ch. 8, par. 22)

Were adequate tests of discounts and allowances made?

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 sold, 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?

If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loans’ expected future cash flows discounted at the loans’ effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. 108.111)

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In governmental funds, were revenues that were measurable but did not meet the available criteria properly recorded as deferred? (GASB Sec. P70.108)

Based on the assessment of control risk, do the substantive tests of receivables appear adequate? (AU Sec. 319)

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**Inventories**

- □ Not a key area

Do the working papers indicate that there were adequate tests of:
  - Physical observation, if material? (AU Sec. 331.09-.13)
  - 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?

- A429  

Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

- A431  

Based on the assessment of control risk, do the substantive tests of inventory appear adequate? (AU Sec. 319)

- A436  

**Investments**

- □ Not a key area

Was a summary schedule prepared and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc., of investments?

- A437  

Were securities either inspected or confirmed? (AU Sec. 332.04)

- A438  

Was the computation of realized and unrealized gains and losses tested by the auditor?

- A439  

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)

- A440  

Was an investigation of the possible impairment of the carrying value of long-term investments made? (AU Sec. 332.03 and EITF 85-39)

- A441  

Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on their marketability?

- A442  

For joint venture investments (accounted for under the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related disclosures? (GASB Sec. J50)

- G310  

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**PRP § 5500**
Was a review made to determine whether the investments are of the types authorized by law or in compliance with the applicable statutes and investment policies? (ASLGU, Ch. 7, pars. 4 and 10)

G311

Were income, gains, and losses from investments examined for proper allocation to the individual funds? (GASB Sec. 150.104-105)

G312

For repurchase and reverse repurchase agreements, were appropriate audit procedures performed (e.g., confirmation, inspection of collateral, etc.)? (ASLGU, Ch. 7, pars. 15-16)

A444

Based on the assessment of control risk, do the substantive tests of investments appear adequate? (AU Sec. 319)

A445

Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

□ Not a key area

Were adequate tests made and/or confirmations received for all material:

Prepaid expenses?

A446

Intangible assets?

A447

Deferred charges?

A448

Other?

A449

Is there adequate support for the deferral and amortization (or lack thereof) of these types of assets?

A450

Based on the assessment of control risk, do the substantive tests of prepaid expenses, intangible assets, deferred charges, etc., appear adequate? (AU Sec. 319)

A453

Property, Plant and Equipment

□ Not a key area

Was a summary schedule prepared to show beginning balances, changes during the period and ending balances for:

Property, plant and equipment?

A454

Accumulated depreciation (where applicable)?

A455

Do tests appear adequate, and were proper conclusions drawn with respect to:

Additions (e.g., by examining supporting documents and/or physical inspection)?

A456

Retirements, etc. (including examining miscellaneous income, scrap sales)?

A457

The adequacy of the current and accumulated provisions for depreciation?

A458

Status of idle facilities? (EITF 84-28)

A459

Do working papers indicate that the auditor considered the possibility that property was subject to liens?

A460
Was a review made to determine that capital expenditures were classified in the proper fund accounts and made in accordance with budgetary requirements? (GASB Secs. 1700.118-.119 and 1800.115-.117)

Based on the assessment of control risk, do the substantive tests of property, plant and equipment appear adequate? (AU Sec. 319)

**Liabilities**

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PRP § 5500
Do the working papers contain sufficient documentation of tests of liability recognized for claims incurred but not reported (IBNR) as of the balance-sheet date? (GASB Sec. C50.113)

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 and consistent with restrictions imposed by the grantor or by the special assessment? (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? (GASB Sec. 60.109)

**Commitments and Contingencies**

□ Not a key area.

Do the working papers contain evidence of the following:

- Inspection of minutes of meetings of the oversight unit, provisions of the governmental unit’s charter, and applicable statutes and changes therein?

- Inspection of contracts, loan agreements, leases and correspondence from taxing and other governmental agencies, and similar documents?

Accounting for municipal solid waste landfill closure and post-closures care costs? (GASB Statement 18)

- 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)

- Consideration of prior audits of federal financial assistance programs that disclosed questioned or disallowed costs, or instances of noncompliance? (ASLGLU Appendix I, SOP 92-7, par. 5.25-.38)

- Inspection of long-term contracts with nongovernmental entities, such as construction contractors?

Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)

Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?

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**PRP § 5500**

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Was appropriate consideration given to issues related to environmental matters, including the requirements of EITF 93-5?

**Fund Equity**

□ Not a key area

Where applicable, were authorizations of changes in reserves and designated balances examined? (ASLGU, Ch. 12, pars. 4-5)

Do the working papers indicate that there were appropriate inquiries as to proper classification, description and disclosures of components of fund equity? (ASLGU, Ch. 12, par. 11)

Do the working papers indicate that fund transfers were properly approved and recorded? (GASB Sec. 1300.110)

Have all entries to contributed capital been properly accounted for?

**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 investigated and resolved? (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 direct program income on federal grants? (ASLGU Appendix F.25(g))

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?

Do the tests of 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:

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PRP § 5500
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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)

Were appropriate allocations made of indirect costs among the entity's programs? (ASLGU, Ch. 8, par. 28)

Was the effect of audits, either required or performed by third party grantors, considered? (SOP 92-7)

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? (ASLGU, Ch. 10, par. 27)

Does the accounting and financial reporting for proprietary funds comply with GASB Statement 20?

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 supplementary information? (AU Sec. 551.06 and .08)

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)
**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 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)

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?  
  A608

- Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)
  A609

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances, were the firm’s conclusions reasonable and consistent with professional standards?

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)

**Notes:**

* 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.
## On-Site Peer Review Engagement Checklists

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<tr>
<td>Did the owner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)</td>
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<td>Does it appear that the hours charged by the owner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)</td>
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<td>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:</td>
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<td>Planning checklist?</td>
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<td>Review of internal control structure:</td>
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<td>Manual system?</td>
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<td>EDP system?</td>
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<td>Audit work programs?</td>
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<td>Financial statement disclosures?</td>
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<td>Working paper and financial statement reviews?</td>
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<td>If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?</td>
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<td>Were the firm’s guidelines for the form and content of audit working papers complied with?</td>
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<td>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)</td>
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<td>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?</td>
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<td><strong>Advancement</strong> (QC Sec. 10.07g)</td>
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<td>If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)</td>
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<td><strong>Acceptance and Continuance of Clients</strong> (QC Sec. 10.07h)</td>
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<td>Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with? (QC Sec. 90.24)</td>
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<td><strong>Professional Development</strong> (QC Sec. 10.07f)</td>
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<td>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)</td>
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</table>
V. Appendix A—Questions for Use When the Engagement Is Subject to *Government Auditing Standards*

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<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF. **</th>
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</table>

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 and AU Sec. 801.33 and SOP 92-7) that includes, when appropriate:

- The controls that were evaluated? (SOP 92-7 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)

- 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? (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, and to the appropriate oversight body? (GAO, Ch. 5, par. 13 and AU Sec. 801.32)

---

* 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 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 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)

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 contain evidence of supervisory reviews of the work performed? (GAO, Ch. 4, par. 22)

Are appropriate personnel in compliance with the 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? (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)

Does the client letter of representations include representations related to the matters set forth in SAS 68 paragraph 19 for GAAS and Yellow Book audits?

**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 of that particular program? (AU Sec. 801.96)

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<tr>
<th>QUES.</th>
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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. The information in SOP 92-7 will be incorporated in the 1994 edition of the AICPA Audit and Accounting Guide Audits of State and Local Governmental Units; that edition will be effective for audits of financial statements for fiscal periods ending after September 15, 1994 and will supersede SOP 92-7.

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* 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.
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 SOP 92-7)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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<td>G511</td>
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</table>

Does the schedule of federal financial assistance program expenditures present the following (SOP 92-7):

- 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?

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 Administrative Requirements for Grants-in-Aid to State and Local Governments*)?

| G516  |     |     |    |      |

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)?

| G517  |     |     |    |      |

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)

| G518  |     |     |    |      |

- If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering non-major programs, to the same extent as in Question G518 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? (SOP 92-7, Ch. 4, par. 4.9)

| G519  |     |     |    |      |

- A sufficient understanding of the internal control structure for the systems used in administering other nonmajor federal financial assistance programs? (SOP 92-7, Ch. 4, par. 4.10)

| G520  |     |     |    |      |
For the categories of controls for which tests were performed:

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<th>REF.</th>
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<tbody>
<tr>
<td>Do the working papers document the auditor’s understanding of the structure? (AU Sec. 319.26)</td>
<td>G521</td>
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<tr>
<td>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)</td>
<td>G522</td>
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<tr>
<td>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)</td>
<td>G523</td>
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<tr>
<td>Do the working papers adequately document the work performed and the conclusions reached? (AU Sec. 319)</td>
<td>G524</td>
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</table>

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial assistance program, did the auditor:

Identify all major programs as defined in the Single Audit Act of 1984?

Consult appropriate sources, such as the OMB’s *Compliance Supplement for Single Audits of State and Local Governments*, 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? (SOP 92-7)

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 SOP 92-7)

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)
<table>
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<tr>
<td>Relocation assistance and real property acquisition? (AU Sec. 801.47e)</td>
<td>G538</td>
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<tr>
<td>Federal financial reports? (AU Sec. 801.47f)</td>
<td>G539</td>
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<tr>
<td>Allowable costs/cost principles? (AU Sec. 801.47g)</td>
<td>G540</td>
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<tr>
<td>Drug-free workplace act? (AU Sec. 801.47h)</td>
<td>G541</td>
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<tr>
<td>Administrative requirements? (AU Sec. 801.47i)</td>
<td>G542</td>
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<tr>
<td>Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)</td>
<td>G543</td>
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<td>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-.90)</td>
<td>G544</td>
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<td>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)</td>
<td>G545</td>
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<td>Where transactions related to non-major federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific federal laws, regulations or requirements? (AU Sec. 801.87 and .90)</td>
<td>G546</td>
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<td>If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (SOP 92-7)</td>
<td>G547</td>
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<td>Does the client letter of representations include representations related to matters set forth in SAS 68 paragraph 91 for single audits?</td>
<td>G548</td>
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<tr>
<td>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)</td>
<td>G549</td>
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<tr>
<td>Has the auditor established policies or procedures for complying with the additional requirements concerning (SOP 92-7): 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?</td>
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<td>Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?</td>
<td>G551</td>
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</table>
VII. EXPLANATION OF “NO” ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all “no” answers for which an MFC form was not generated or to expand upon any of the “yes” answers. All “no” answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

* 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.
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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AICPA Peer Review Program Manual

PRP § 5500
VIII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of Government Auditing Standards and the Single Audit Act?

  YES*  NO____

- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the review report was not appropriately modified (see AU 561 and ET 203)?

  YES*  NO____

- The auditor's reports, including all reports required under Government Auditing Standards or by the Single Audit Act, were not appropriate in the circumstances?

  YES*  NO____

- The documentation on this engagement does not support the firm's opinion on the financial statements?

  YES  NO____

- The firm did not comply with its policies and procedures on this engagement in all material respects?

  YES  NO____

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.
PRP Section 5600
Not-for-Profit Audit Engagement Checklist

Instructions for Use of Checklist for Review of Audit Engagements of Not-for-Profit Organizations

This checklist was developed for use by reviewers of audits of not-for-profit organizations, including those entities that receive federal financial assistance. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in auditing and reporting on financial statements of not-for-profit organizations. 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 OMB Circular A-133, the reviewer should complete Section III ("Audits of Governmental Grantees"). Likewise, individuals reviewing review or compilation engagements of not-for-profit organizations should combine Sections I ("Report and Financial Statements") and III ("Audits of Governmental Grantees") of this checklist with Sections II ("General Procedures"), III ("Functional Areas") and V and VI ("Conclusions") of the review and compilation checklists, respectively.

If the reviewer is reviewing an organization that follows the AICPA Industry Audit Guide Audits of Voluntary Health and Welfare Organizations, the reviewer should complete this checklist and the supplemental checklist for review of voluntary health and welfare organizations.

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.
On-Site Peer Review Engagement Checklists

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.

The GAO Yellow Book 1994 revision supersedes the 1988 edition, and is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.

Explanation of References:

AEBP Audit and Accounting Guide Audits of Employee Benefit Plans (As of May 1, 1994)
AC Reference to section number in FASB Accounting Standards Current Text
ACNO AICPA Audit and Accounting Guide Audits of Certain Nonprofit Organizations (with conforming changes (As of May 1, 1994))
ASLGU AICPA Audit and Accounting Guide Audits of State and Local Governmental Units (1994)
AU Reference to section number in AICPA Professional Standards (vol. 1)
EITF Emerging Issues Task Force abstracts
ET Code of Professional Conduct AICPA Professional Standards (vol. 2)
GA Generally Accepted Accounting Practice
GAO Government Auditing Standards (1988 Revision), United States General Accounting Office
GASB Codification of Governmental Accounting and Financial Reporting Standards (As of June 30, 1994)
OMB Office of Management and Budget Circular
SOP AICPA Statement of Position
QC Quality Control Standards AICPA Professional Standards (vol. 2)
AVHW AICPA Industry Audit Guide Audits of Voluntary Health and Welfare Organizations (As of May 1, 1994)
ASI AICPA Audit and Accounting Guide Audits of Savings Institutions (As of May 1, 1994)
ENGAGEMENT PROFILE

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This engagement involves reporting on:
( ) Financial statements (single entity)
( ) Combined financial statements of financially interrelated not-for-profit organizations
( ) Consolidated or combined financial statements of voluntary health and welfare organizations
( ) Financial statements of a component of the organization
( ) Special Reports (SAS No. 62)
( ) Internal Control and Compliance (pursuant to OMB Circular A-133)
( ) Other (explain)

Was the work performed at the request of another office? Yes___ No___

Date that the fee for the prior year’s engagement was paid ____________________________

Key data reported on by this office for this engagement:

- Total revenues (memorandum total) ........................................ $________
- Total assets .............................................................................. $________
- Total fund balances ................................................................. $________
- Total amount of federal assistance expended ......................... $________

General description of audited entity (type of entity, services provided, etc.)

Complex or troublesome audit areas:

Audit hours on this engagement:

<table>
<thead>
<tr>
<th></th>
<th>Prior to Commencement of Field Work</th>
<th>During Field Work</th>
<th>After Completion of Field Work</th>
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<tr>
<td>Manager (or equivalent)</td>
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<td>Concurring Reviewer **</td>
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<td>Senior</td>
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<td>Other</td>
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<td>Total this office</td>
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<td>Total budgeted</td>
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</table>

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
** Not applicable unless required by firm policy.
*** This amount should include “pass through” federal financial assistance received indirectly from a state or local government.
LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER
A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily, all key audit areas should be reviewed. List below the key areas on this engagement, and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, and V should be answered in addition to the key areas identified.

1. 
2. 
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10. 

Date Engagement Review Performed _____________________________

Reviewer _____________________________

Date Checklist Reviewed by Team Captain _____________________________

Signature _____________________________

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Checklist for Review of Audit Engagements of Not-for-Profit Organizations

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NOTE: This checklist has been updated through SAS No. 72, SFAS No. 117, FASB Interpretation No. 40, and the GAO's Government Auditing Standards (1988 Revision), referred to as the "Yellow Book." (A 1994 Revision of the Yellow Book is effective for financial audits of periods ending on or after January 1, 1995, with earlier application permitted.)
I. REPORT AND FINANCIAL STATEMENTS

NOTE: This condensed checklist has been extracted from the AICPA financial reporting aid, Disclosure Checklists for Nonprofit Organizations. Reviewers may wish to consult that checklist for detailed information about the applicable professional standards and related citations. All “no” answers must be thoroughly explained. If the firm has used its own report and financial statement disclosure checklist on this engagement, it may be reviewed in lieu of completing this checklist provided the reviewer has determined that the firm’s checklist is current, comprehensive, and appropriate for the engagement.

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor’s Reports</td>
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<tr>
<td>Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08j, .46 and 530)</td>
<td>A101</td>
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</tr>
<tr>
<td>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)</td>
<td>A102</td>
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<tr>
<td>Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08 and .74)</td>
<td>A103</td>
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</tr>
<tr>
<td>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)</td>
<td>A104</td>
<td></td>
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</tr>
<tr>
<td>If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)</td>
<td>A105</td>
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<tr>
<td>For special reports, have professional standards been complied with regarding:</td>
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<tr>
<td>Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (AU Sec. 623.01-.10)</td>
<td>A106</td>
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<tr>
<td>Specified elements, accounts or items of a financial statement? (AU Sec. 623.11-.18)</td>
<td>A107</td>
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<tr>
<td>Compliance with aspects of agreements or regulatory requirements related to audited financial statements? (AU Sec. 623.19-.21)</td>
<td>A108</td>
<td></td>
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<tr>
<td>Financial presentations to comply with agreements or regulatory provisions? (AU Sec. 623.22-.30)</td>
<td>A109</td>
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<tr>
<td>Financial information in prescribed forms or schedules? (AU Sec. 623.32-.33)</td>
<td>A110</td>
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</tr>
<tr>
<td>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)</td>
<td>A111</td>
<td></td>
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</tbody>
</table>

* 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.

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## Financial Statements and Notes

### General

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the financial statements suitably titled? (AU Sec. 623.07 and .24)</td>
<td>A112</td>
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</tbody>
</table>

Is the accounting appropriate and are the disclosures adequate regarding:

- Significant accounting policies, including a description of the nature of each fund, if applicable (i.e., general, plant, endowment, unrestricted, temporarily restricted, permanently restricted) (AC Sec. A10.105-.108)

- 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? (N101)
- Receipts of contributed services? (N102)
- Promises to give? (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? (N104)
- A statement of activity containing the changes in the organization’s net assets? (N105)
- A statement of cash flows containing the changes in the cash and cash equivalents? (N106)

Are the net assets classified based on donor restrictions or absence of restrictions?

Are the three categories of net assets (permanently restricted, temporarily restricted and unrestricted) disclosed on the statement of financial position or statement of cash flows and changes in the statement of activities?

Is there a classification of revenues, expenses, gains and losses based on donor restriction or absence of restrictions?

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, ftn. 27)

Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)

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AICPA Peer Review Program Manual

PRP § 5600
With respect to contingencies and commitments:

- Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)  
  - Yes: A126
  - No: N/A
  - Reference: AC Sec. C59.104-.114

- Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)  
  - Yes: A127
  - No: N/A
  - Reference: 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 Secs. C59.105, .112, 560.03-.09 and 561)

- Yes: A128
- No: N/A
- Reference: AC Secs. C59.105, .112, 560.03-.09 and 561

Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)

- Yes: A129
- No: N/A
- Reference: AC Sec. P16.150

Are all other pension plans adequately disclosed? (AC Sec. P16)

- Yes: A130
- No: N/A
- Reference: AC Sec. P16

Is the required information on defined benefit postretirement plans, other than pensions, adequately disclosed? (AC Sec. P40.169)

- Yes: A131
- No: N/A
- Reference: AC Sec. P40.169

Have postemployment and postretirement benefits, other than pensions, been properly accounted for and disclosed? (AC Sec. P32 and P40)

- Yes: A132
- No: N/A
- Reference: AC Sec. P32 and P40

Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)

- Yes: A136
- No: N/A
- Reference: AC Sec. A35

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? N111
- Nature and volume of material transactions (individually or in the aggregate) with related entities? N112
- Allocations of common expenses? N113

Are related party transactions with non-combined affiliated entities, contributors of restricted funds, board members, officers, and employees adequately disclosed? (SOP 78-10, pars. 47-49)

- Yes: N114
- No: N/A
- Reference: SOP 78-10, pars. 47-49

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 19-24):

- Unrestricted resources? (SOP 78-10, par. 63) N115
- Resources restricted by the donor? (SOP 78-10, pars. 54-62) N116

**Balance Sheet**

Is the accounting appropriate and are the disclosures 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)  
  - Yes: A138
  - No: N/A
  - Reference: SOP 78-10

- Valuation allowances? (AC Sec. V18)  
  - Yes: A139
  - No: N/A
  - Reference: AC Sec. V18

- Restricted cash including compensating balances? (AC Secs. B05.107 and C59.120)  
  - Yes: N117
  - No: N/A
  - Reference: AC Secs. B05.107 and C59.120
### Not-for-Profit Audit Engagement Checklist

<table>
<thead>
<tr>
<th>Question</th>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</thead>
<tbody>
<tr>
<td>Investments? (AC Secs. I82.109-.110, I80 and F25.115C-.115H)</td>
<td>A150</td>
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<tr>
<td>Terms or circumstances concerning repurchase or reverse repurchase agreements? (ASI 3.21-3.23 and Ch. 11)</td>
<td>N118</td>
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<tr>
<td>Accounts and Notes Receivable:</td>
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<tr>
<td>Effect of interest rates that do not reflect market rates? (AC Sec. I69.109)</td>
<td>A143</td>
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<tr>
<td>Legally enforceable pledges? (SOP 78-10, pars. 64-66; VHW 4.12-.13)</td>
<td>N119</td>
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<tr>
<td>Interfund borrowings? (SOP 78-10, pars. 118-119)</td>
<td>N120</td>
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<tr>
<td>Other receivables?</td>
<td>A145</td>
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<tr>
<td>Inventories? (AC Secs. B05.105 and I78)</td>
<td>A147</td>
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<tr>
<td>Collections of works of art and similar items? (AC Secs. D40.101-.101A, ACNO, pars. 5.10-5.12 and SOP 78-10, pars. 113-115)</td>
<td>N121</td>
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<tr>
<td>Fixed Assets:</td>
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<tr>
<td>Purchased fixed assets? (SOP 78-10, par. 105 and VHW pars. 3.03-3.06)</td>
<td>N122</td>
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<tr>
<td>Donated fixed assets? (SOP 78-10, par. 105 and VHW pars. 3.03-3.06)</td>
<td>N123</td>
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<tr>
<td>Accounting for depreciation, including disclosure of depreciation policy for inexhaustible assets? (SOP 78-10, pars. 106-112 and VHW pars. 3.07-3.12)</td>
<td>N124</td>
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<td>Major classes of depreciable assets?</td>
<td>N125</td>
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<tr>
<td>Accumulated depreciation, as well as a general description of the method used in computing depreciation?</td>
<td>N126</td>
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<tr>
<td>Capitalized interest? (AC Sec. I67)</td>
<td>N127</td>
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<tr>
<td>Restrictions on use or disposal imposed by donor? (SOP 78-10, pars. 59-62)</td>
<td>N128</td>
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<tr>
<td>Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)</td>
<td>A150</td>
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<tr>
<td>Other assets, including intangible assets, unamortized computer software costs, and deferred charges? (AC Secs. I60, Co2.102-.110 and I27.140)</td>
<td>A151</td>
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<tr>
<td>Pledged assets? (AC Sec. C59.120)</td>
<td>A152</td>
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<tr>
<td>Related assets and liabilities may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to setoff is enforceable at law? (AC Sec. B10.101A)</td>
<td>A153</td>
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<tr>
<td>Current liabilities? (AC Sec. B05.108-.109 and .118)</td>
<td>A154</td>
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</tbody>
</table>
Short-term liabilities expected to be refinanced? (AC Sec. B05.110-.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)
- Capital leases of lessees? (AC Sec. L10.106-.112)

Other liabilities and deferred credits, including employees' compensation for future absences, special termination benefits to employees, and deferred revenue and support? (AC Sec. C44.104 and .108)

Statement of Activity

Are unrestricted revenues, expenses, and fund balances clearly distinguishable from restricted items? (SOP 78-10, pars. 20 and 63 and VHW pars. 1.03-1.06)

If the organization receives significant support from contributions from the general public, are all expenses presented on a functional basis (i.e., indicating costs of each program and supporting activity)? (SOP 78-10, pars. 85-88 and VHW pars. 6.14-6.17)

Does the Activity Statement include all the funds of the organization? (SOP 78-10, pars. 26 and 87)

Is the accounting appropriate and are the disclosures adequate regarding:
- Subscription and membership income? (SOP 78-10, par. 84)
- Third-party reimbursements of costs for services provided? (ACNO, Ch. 3, pars. 3.14-3.18)
- Investment income and gains and losses? (SOP 78-10, pars. 72-76)
- Capital gains and losses from investments, both realized and unrealized, and the related tax effects, if any? (SOP 78-10, pars. 80-83)
- 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-.115H)
- Contributions? (SOP 78-10, par. 28)
- Donated services, materials and facilities? (SOP 78-10, pars. 67-71)
- Gifts of future interests? (ACNO, Ch. 4, par. 4.25 and SOP 78-10, par. 121)
Other gifts, grants, pledges, etc.? (SOP 78-10, pars. 64-66 and 101-102)  

Interfund transfers? (ACNO, Ch. 6, paras. 6.04-6.08 and SOP 78-10, paras. 118-119)  

Revenue, support and capital additions? (ACNO, Ch. 4, paras. 4.01-4.05 and SOP 78-10, paras. 50-53)  

Allocation of functional expenses to programs and supporting services? (SOP 78-10, paras. 97 and 100 and VHW, Ch. 6 and SOP 87-2, par. 22)  

Allocation of fund raising expenses, including joint costs of informational materials and activities, between fund raising and other functional expense categories? (SOP 78-10, paras. 92-97, VHW, Ch. 6 and SOP 87-2)  

Depreciation? (AC Sec. D40)  

Deferred compensation agreements? (AC Sec. C38)  

Grants to other organizations? (SOP 78-10, paras. 101-102)  

Remittances to national organizations? (SOP 78-10, par. 90)  

Prior period adjustments? (AC Sec. A35.103)  

Operating leases and rent expense of lessees? (AC Sec. L10.111-112)  

Extraordinary items? (AC Sec. I17)  

Unusual or infrequent items, but not both? (AC Sec. I22)  

### 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? (SOP 78-10, par. 17 and AC Sec. No. 5)  

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-.124)  

The net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents; also, do the amounts of cash and cash equivalents agree with the amounts on the balance sheet? (AC Sec. C25.124)  

Does it provide a reconciliation between excess of revenue over expenditures and net cash flow from operating activities? (AC Sec. C25.127)  

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. C25.125)
On-Site Peer Review Engagement Checklists

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tr>
<td>A199</td>
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<td>A201</td>
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<td>A203</td>
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<td>N150</td>
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</table>

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)

Are the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-111A)

**Other**

Are the statement formats and disclosures generally consistent with the appropriate AICPA 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)
### II. GENERAL AUDIT PROCEDURES

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
</table>

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)  
  A300

- Matters affecting the entity’s operations, such as legal organization and types of services and contractual obligations? (AU Sec. 311.03-.04)  
  A301

- Preliminary judgment about materiality levels? (AU Secs. 311.03 and 312.08)  
  A302

- Did the auditor consider the applicability of OMB Circular A-133?  
  N201

Did the auditor:

- Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts (also inadequate control of contributions and violations of laws and regulations) may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05)  
  A303

- Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure? (AU Sec. 316.12)  
  A304

- Design the audit to provide reasonable assurance of detecting errors and irregularities and direct effect illegal acts that could be material to the financial statements? (AU Secs. 316.05 and 317.05)  
  A305

Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06)  
A306

If the auditor succeeded another auditor, did the auditor:

- Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity’s management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)  
  A307

- Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08)  
  A308

- Review the predecessor auditor’s working papers, or obtain satisfaction by other means. (AU Sec. 315.08)  
  A309

---

* 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 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 Secs. 319.16 and 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 of the conclusion (i.e., tests of controls) that the effectiveness of the design and operation of internal control structure policies and procedures supports the assessed level of control risk when that assessed level is below the maximum level? (AU Sec. 319.39)

If the methods used by the client to process significant accounting information include the use of a service organization, was consideration given to the control structure policies and procedures at the service organization that may affect the processing of the client's transactions and internal control structure? (AU Sec. 324.06-.10)

If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor's report that describes the results of the service auditor's tests of operating effectiveness obtained, were tests performed by the auditor at the service organization, or were tests of the client's controls over the activities of the service organization performed by the auditor? (AU Sec. 324.14-.16)

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)

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 when completed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in tests of controls (AU Secs. 319 and 350):
In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population? (AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)

If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures reevaluated based on a revised consideration of the assessed level of control risk for the relevant financial statement assertions? (AU Sec. 350.40-.43)

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 evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population? (AU Sec. 350.16)

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 in 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 evaluating whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications? (AU Sec. 350.30)

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? (AU Secs. 326 and 342)

Did the auditor obtain written, timely and appropriate representations from management and was the representation letter properly dated? (AU Secs. 333, 801.19 and .91 and ACNO, Ch. 7, par. 7.05)

Did the auditor obtain timely and appropriate responses from the entity’s attorneys concerning litigation, claims, and assessments? (AU Sec. 337.08-.14)

Have all questions, exceptions, or notes been followed up and resolved, including consideration of the views obtained from responsible officials of the organization?

Was appropriate consideration given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)

During the performance of the engagement, did the auditor:

Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)

Consider the implications of any 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 (ACNO, Ch. 7, par. 7.03):

Follow up on the illegal acts in accordance with professional standards? (AU Sec. 317.10-.11)

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 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 the principal conditions and events that initially called the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)

If the auditor's substantial doubt was not alleviated, did the auditor's report include an explanatory paragraph which adequately communicates the auditor's substantial doubt (e.g., include the terms "substantial doubt" and "going concern")? (AU Sec. 341.12-.13)

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 that the purpose of the audit was to report on the financial statement and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and the restriction on distribution? (AU Sec. 325.11)
- Has the auditor complied with the requirement not to issue a letter stating that there were no reportable conditions? (AU Sec. 325.17)

Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report? (AU Sec. 560)

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, and does the matter appear to be properly resolved? (AU Sec. 561)

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 an audit committee or some other formal oversight group, did the auditor (ACNO, Ch. 7, pars. 7.07 and 7.08):
- Ensure that the appropriate matters were communicated to those who have responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)
- If the communication was in writing, include a statement that it is intended solely for the use of the audit committee or the board of directors and, if appropriate, management? (AU Sec. 380.03)
If the communication was oral, document the information communicated by appropriate memoranda or notations in the working papers? (AU Sec. 380.03)

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III. AUDITS OF GOVERNMENTAL GRANTEES *

NOTE: These questions are derived from 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 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 Appendixes A and B. These questions can be found within the two consecutive sections in the Audit Summary starting on page 7315.

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Does the engagement letter, proposal or contract, if such documents were prepared, include a statement as to what type of engagement is being performed and whether the engagement is intended to meet a governmental oversight agency's audit requirements? (AU Sec. 801.03 and SOP 92-9, Ch. 3, par. 3.62)**

During the performance of the engagement, did the auditor communicate to management (and the audit committee or others with equivalent authority) about an audit requirement that may not be encompassed in the terms of the engagement, and that an audit in accordance with generally accepted auditing standards may not satisfy the relevant legal, regulatory or contractual requirements? (Communication may be oral or in writing—if the communication is oral the auditor should document the communication in the working papers.) (AU Sec. 801.04-.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-1 through D-18 and Ch. 7, par. 7.40) and appropriately cover the following for the entity as a whole:

The financial statements? (SOP 92-9, par. 2.38)

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, AU Sec. 801.33, SOP 92-7, SOP 92-9, Ch. 5, par. 5.8 and Ch. 7, pars. 7.5 and 7.9)?

The controls that were evaluated? (SOP 92.7 and GAO, Ch. 5, pars. 21-22)

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* 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.
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 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 noncompliance 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 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 officials of the entities within a reasonable time? If the entity did not, or was unable to do so because a top official was involved, has the auditor reported these acts to the appropriate oversight body and officials of those other governmental entities? (GAO, Ch. 5, par. 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:

Auditor's report on the schedule of federal awards? (SOP 92-7, SOP 92-9, Ch. 4, and ACNO Exhibits 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 92-7, and SOP 92-9, Exhibit D-8):

The controls that were evaluated (considered and tested)? (SOP 92-9, par. 2.40)

The controls that were not evaluated (tested)? (SOP 92-9, par. 2.40)

The material weaknesses identified as a result of the evaluation (considered and tested)? (SOP 92-9, par. 2.40)

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)

Nonmajor programs—Compliance reports—Specific requirements:
A statement of positive assurance with respect to those items tested and negative assurance on those items not tested concerning material instances of noncompliance with specific requirements of nonmajor programs? (AU Sec. 801.89 and SOP 92-9, Exhibit D-18)

Major and nonmajor programs—Compliance auditing—General requirements:
A statement of positive assurance with respect to the items tested and a statement of negative assurance on those items not tested concerning material instances of noncompliance with the general requirements relating to major programs? (AU Sec. 801.51e-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 therefore, 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, pars. 7.17-.18)

Did the report(s) disclose the status of all known, but uncorrected significant or material findings and recommendations from prior audits that affect current audit objectives? (SOP 92-9, Ch. 3, pars. 3.47-3.48 and GAO, Ch. 3, par. 41)

Did the auditor document 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)

If the entity is subject to OMB Circular A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication? (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 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)

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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, SOP 92-7 and SOP 92-9, Ch. 6, par. 6.17)

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Does the schedule of federal financial assistance program expenditures present the following (SOP 92-7 and SOP 92-9):

- Identification of each program as indicated in the Catalog of Federal Domestic Assistance (CFDA)?

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- Other federal assistance from programs not included in the CFDA?

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- Total expenditures for each federal financial assistance program by grantor, department, or agency?

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- Total federal award expenditures?

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Was consideration given to the accounting and auditing guidance issued by the Office of Management and Budget, including Circulars A-133 (Audits of Institutions of Higher Education and Other Nonprofit Institutions), A-21 (Cost Principles for Educational Institutions) and A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Institutions)?

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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)

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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)

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If warranted, the consideration and testing of the internal control structure policies and procedures, used in administering nonmajor programs, to the same extent as in Question G518 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested? (SOP 92-7, par. 4.9)

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A sufficient understanding of the internal control structure for the systems used in administering other nonmajor federal financial assistance programs? (SOP 92-7, par. 4.10)

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For the categories of controls for which tests were performed:

Do the working papers document the auditor’s understanding of the structure? (AU Sec. 319.26)

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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 awards program, did the auditor:

- Identify all major programs as defined in OMB Circular A-133? (AU Sec. 801.58-.62 and SOP 92-9, Ch. 1, pars. 1.23-1.25 and Ch. 6, par. 6.36)
- Consult appropriate sources, such as OMB’s Compliance Supplement for Audits of Institutions and Other Non-Profit Organizations (revised October 1991), statutes, regulations, and agreements covering individual programs, in order to identify the specific compliance requirements that apply to each major program and to determine which requirements to test? (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? (SOP 92-7)
- 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)
  - 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 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)
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<td>Relocation assistance and real property acquisition? (AU Sec. 801.47e)</td>
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<td>Federal financial reports? (AU Sec. 801.47f)</td>
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<td>Drug-free workplace act? (AU Sec. 801.47h)</td>
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<td>Administrative requirements? (AU Sec. 801.47i)</td>
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<td>Consider projected questioned costs from all audit sampling applications and all specifically identified questioned costs? (AU Sec. 801.76-.79)</td>
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<td>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-.90)</td>
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<td>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)</td>
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<td>Where transactions related to nonmajor federal financial assistance programs have been selected during other audit procedures, have they been appropriately tested for compliance with the specific federal laws, regulations, or requirements? (AU Sec. 801.87 and .90 and SOP 92-9, Ch. 6, pars. 6.23-6.25)</td>
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<tr>
<td>If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems? (SOP 92-7)</td>
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<tr>
<td>Does the client letter of representations include representations related to matters set forth in SAS 68, paragraph 91 for single audits?</td>
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<tr>
<td>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 contain evidence of supervisory reviews of the work performed? (GAO, Ch. 4, par. 22)</td>
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<tr>
<td>Are appropriate personnel in compliance with the Yellow Book CPE requirements?</td>
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<tr>
<td>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)</td>
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<tr>
<td><strong>Program Specific Audits</strong> (SOP 92-9, Ch. 2, pars. 2.28-2.35)</td>
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<tr>
<td>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-.97)</td>
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<td>Did the auditor submit the report(s) to the organization audited on a timely basis? (GAO, Ch. 5, par. 34)</td>
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</table>
Has the auditor established policies or procedures for complying with the additional requirements concerning (SOP 92-7):

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?

If the auditor expressed a qualified opinion, did he/she disclose all of the substantive reasons for doing so? (AU Sec. 508.39)

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<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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</table>
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 below the name of the working paper area. (As indicated on page 5604, the reviewer should indicate the reason for not reviewing a key audit area; in such circumstances, the reviewer should not place an "X" below the area.)

<table>
<thead>
<tr>
<th>Cash</th>
<th></th>
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<tbody>
<tr>
<td>□ Not a key area</td>
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<tr>
<td>Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?</td>
<td>A401</td>
</tr>
<tr>
<td>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?</td>
<td>A402</td>
</tr>
<tr>
<td>Do the working papers indicate that the following were considered:</td>
<td></td>
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<tr>
<td>Confirmation of cash balances?</td>
<td>A403</td>
</tr>
<tr>
<td>Restrictions on cash balances?</td>
<td>A404</td>
</tr>
<tr>
<td>Confirmation of bank credit arrangements such as compensating balances?</td>
<td>A405</td>
</tr>
<tr>
<td>Confirmation of liabilities and contingent liabilities to banks?</td>
<td>A406</td>
</tr>
<tr>
<td>Authorization for interfund cash transactions?</td>
<td>N401</td>
</tr>
<tr>
<td>Determination that all interfund borrowings have been identified and appropriately recorded? (ACNO, Ch. 6, pars. 6.04-6.08)</td>
<td>N402</td>
</tr>
<tr>
<td>Based on the assessment of control risk, do the substantive tests of cash appear adequate? (AU Sec. 319)</td>
<td>A407</td>
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<table>
<thead>
<tr>
<th>Receivables</th>
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<tr>
<td>□ Not a key area</td>
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<tr>
<td>Were accounts, pledges and grant receivables confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330.24-.30)</td>
<td>A408</td>
</tr>
<tr>
<td>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?</td>
<td>A409</td>
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</tbody>
</table>

* 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 a significant number and amount of accounts, pledges and grant receivables were not confirmed, is there evidence that alternative auditing procedures were performed? (AU Sec. 330.31-.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 included 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 were 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 the 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 cutoff tests?

Were procedures performed to verify whether the carrying value of notes receivable reflect the present value of the consideration given and the appropriate interest rate?

If accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate? (AU Sec. 330.34-.35)

If FAS No. 114 was applicable to this engagement (either as a result of the statement's effective date or an early adoption of the statement) are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans), carried at the present value of the loans' expected future cash flows discounted at the loans' effective interest rates or at the observable market prices or the fair value of the collateral if the loans are collateral dependent? (AC Sec. 108.111)

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 methods and substantiation of costs used in pricing all elements (raw material, work-in-process and finished goods) of the inventory?  

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**AICPA Peer Review Program Manual**  
**PRP § 5600**
<table>
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<th>QUES.</th>
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**Investments**

☐ Not a key area

Was a summary schedule prepared and details examined with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments?

A437

Were securities either inspected or confirmed? (AU Sec. 332.04)

A438

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)

N405

Do the working papers reflect consideration of changes in the carrying value of marketable securities and other investments, and were unrealized gains and losses appropriately recognized? (SOP 78-10, pars. 79-81)

N406

Was the computation of realized and unrealized gains and losses tested by the auditor?

A439

Do the working papers indicate tests of unit market value calculations of pooled investments funds, including the appropriate treatment of additions to and withdrawals from the pool? (SOP 78-10, pars. 116-117)

N407

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds? (SOP 78-10, pars. 116-117)

N408

Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on marketability? (SOP 78-10, pars. 54-62, and VHW, Ch. 2)

N409

Do the working papers indicate that risk of loss on repurchase agreements was properly considered? (GASB Secs. I50 and R10.110-.112)

N410

Do the working papers indicate that repurchase security transactions were reviewed for consistency with the disclosures of the terms or circumstances of the transactions? (GASB Secs. I50 and R10.110-.112)

N411

Based on the assessment of control risk, do the substantive tests of investments appear adequate? (AU Sec. 319)

A445

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**PRP § 5600**

Copyright © 1995, American Institute of Certified Public Accountants, Inc.
### Prepaid Expenses, Intangible Assets, Deferred Charges, etc.

- **□** Not a key area

Were adequate tests made for all material:

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<tbody>
<tr>
<td>Prepaid expenses?</td>
<td>A446</td>
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<tr>
<td>Intangible assets? (AC Sec. I60)</td>
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<tr>
<td>Deferred charges?</td>
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<tr>
<td>Other?</td>
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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 and AC Sec. I60)

### 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 was 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 was capitalized:

- Were physical inventories observed at all locations where relatively large amounts were 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)?

If the collection was considered inexhaustible and was not 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 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, pars. 5.10-5.12)

Do the working papers indicate that the auditor considered whether property was subject to liens?

Was a review made to determine that capital expenditures were reported in the proper fund accounts? (ACNO, Ch. 6, pars. 6.14-6.17)

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 accounts payable adequately tested for existence?

Was an adequate search performed for unrecorded liabilities at the balance sheet date?

Was consideration given to expenditures that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and to whether accrued expenses were reasonably stated? (AC Secs. P16, C44 and P40)

Were procedures performed to determine whether tax deferred annuity and life income plans were appropriately calculated to conform with GAAP and IRS regulations? (ACNO, Ch. 6, par. 6.03)

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed, or alternative procedures applied?

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)

Was there evidence that the release of funds from these reserves was tested and appropriately recorded in the financial statements?

Were procedures performed to determine whether the carrying value of debt obligations reflects the present value of the consideration received and the appropriate interest rates?
Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity’s debt obligations?

QUES. N/A YES NO REF.
A468

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)

N424

Do the tests of interfund borrowings appear adequate with respect to (ACNO, Ch. 6, pars. 6.04-6.08 and SOP 78-10 pars. 118-119):

- Legal restrictions, if any, on such borrowings?
- Authorization?
- Classification?
- Collectibility of amounts due from other funds?
- Appropriateness of interest accruals and payments?

N425 N426 N427 N428 N429

Based on the assessment of control risk, do the substantive tests of liabilities appear adequate? (AU Sec. 319)

A469

Deferred Revenue and Support (ACNO, Ch. 6, pars. 6.09-6.13)

☐ Not a key area

Do the working papers indicate that consideration was given as to whether the basis for deferring revenue is reasonable and consistent with the donors’ or grantors’ restrictions?

N430

Was consideration given to matching requirements, if any?

N431

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?

N432

Commitments and Contingencies

☐ Not a key area

Do the working papers contain evidence of the following:

- Inspection of minutes of meetings of the governing board and other appropriate committees of the board?
- 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?
- Inquiry and discussion with management including management’s written representations concerning liabilities, litigation, claims, assessments, and regulatory requirements as applicable? (AU Secs. 333 and 337.05)
- 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)

N433

AICPA Peer Review Program Manual

PRP § 5600
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)

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Has adequate consideration been given to contingencies in accordance with professional standards?
(AC Sec. C59)

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Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?

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Was appropriate consideration given to issues related to environmental matters, including the requirements of SEC SAB No. 92 and EITF 93-5?

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**Fund Balance** (ACNO, Ch. 6, pars. 6.14-6.17)

- □ Not a key area

Where applicable, were authorizations of changes in fund balances and designated balances examined?

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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?

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Do the working papers indicate that fund transfers were properly approved and recorded?

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If an endowment fund was maintained, do the working papers indicate that fund income was distributed to unrestricted and restricted funds in accordance with donors’ stipulations?
(VHW, Ch. 1, par. 1.09, and SOP 78-10 par. 73)

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**Revenues, Expenses, Support, and Capital Additions**

- □ Not a key area

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 accountant consider whether:

- Contributions received/made, including promises to give, were recognized as revenue/expenses in the period received/made, at their fair values?

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- Contributions that increase net assets were categorized between permanently restricted, temporarily restricted and unrestricted?

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- Donor-imposed restrictions which expire were recognized in the period in which they expired?

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- Contributions for services were recognized only if they created or enhanced nonfinancial assets or require specialized skills that would have typically been purchased if not provided by donation?

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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 investigated and resolved? (AU Sec. 329)  

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<th>QUES.</th>
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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?  

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</table>

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)  

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<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
<th>YES</th>
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</table>

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?  

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A*</th>
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</table>

Do the working papers indicate that the auditor considered actual receipt and propriety of valuation method used, and any restrictions placed on amounts received during the current period from:  
Cash contributions? (ACNO, Ch. 4, pars. 4.07-4.16)  
Donated and contributed services? (ACNO, Ch. 4, pars. 4.17-4.20)  
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. 4.25-4.29)  

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<thead>
<tr>
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</table>

If expenses are classified by function, did the auditor adequately test the classifications and allocations? (ACNO, Ch. 2, pars. 2.01-2.04 and SOP 78-10, pars. 85-88)  

<table>
<thead>
<tr>
<th>QUES.</th>
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If joint costs of multipurpose activities were incurred, were the requirements of SOP 87-2 appropriately considered?  

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<thead>
<tr>
<th>QUES.</th>
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Were fundraising costs expensed in the proper period? (VHW, Ch. 6 pars. 6.14-6.16, and SOP 78-10, pars. 92-100)  

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<thead>
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<th>QUES.</th>
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</table>

If grants were awarded to other organizations, did the auditor review (SOP 78-10, pars. 101-102 and ACNO, Ch. 2, par. 2.06):  
The classification of the grants?  
The effects of the grantees’ compliance or noncompliance with performance requirements?  

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<thead>
<tr>
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</table>

Were tests of payrolls, including account distribution, made, where appropriate?

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? (AC Sec. L10)

Were appropriate procedures applied to supplementary information? (AU Sec. 551.06 and .08)

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, and SOP 78-10 pars. 42-48)
V. FUNCTIONAL AREAS

<table>
<thead>
<tr>
<th>QUES</th>
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**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 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)

Were the fees (billed/unbilled) for prior years’ services paid prior to issuance of the report for the current engagement? (ET Sec. 191.103-.104)

**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:

1. In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances, were the firm’s conclusions reasonable and 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)

* 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.
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)

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<th>QUES.</th>
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Did the owner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff? (QC Sec. 90.16)

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<th>QUES.</th>
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Does it appear that hours charged by the owner, manager, and where applicable, the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed? (QC Sec. 90.16)

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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?

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<th>QUES.</th>
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If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

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<th>QUES.</th>
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Were the firm's guidelines for the form and content of audit working papers complied with?

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<th>QUES.</th>
<th>N/A</th>
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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)

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<th>QUES.</th>
<th>N/A</th>
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</table>

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?

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<thead>
<tr>
<th>QUES.</th>
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**Advancement** (QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

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**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)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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**Professional Development** (QC Sec. 10.07f)

Did the personnel assigned to this engagement appear to be appropriately familiar with the applicable professional pronouncements (FASB, AICPA, etc.)? (QC Sec. 90.19-.20)

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<th>QUES.</th>
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</table>
VI. EXPLANATION OF “NO” ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all “no” answers for which an MFC form was not generated or to expand upon any of the “yes” answers. All “no” answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

*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.
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
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On-Site Peer Review Engagement Checklists

PRP § 5600

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<table>
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<th>Page Number</th>
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Not-for-Profit Audit Engagement Checklist

AICPA Peer Review Program Manual
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NOTE: Attach additional sheets if required.
VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY “YES” ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards of Government Auditing Standards and OMB Circular A-133?  
  YES*____ NO____

- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)?
  YES*____ NO____

- The auditor's reports, including all reports required by governmental agencies, were not appropriate in the circumstances?
  YES*____ NO____

- The documentation on this engagement does not support the firm's opinion on the financial statements?
  YES _____ NO____

- The firm did not comply with its policies and procedures on this engagement in all material respects?
  YES _____ NO____

  [The next page is 5701.]

*If this question is answered “yes,” see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.
PRP Section 5700

Employee Benefit Plan Engagement Checklist

Instructions for Use of the Checklist for Review of Audits of Employee Benefit Plans

This checklist was developed for use by reviewers of audits of employee benefit plans. It should be used in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms.* Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of employee benefit plans. All “No” answers must be thoroughly explained in Section V of this checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to employee benefit plans. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate employee benefit plan engagements. These additional materials include the AICPA Financial Reporting Practice Aid, Checklist for Defined Benefit Pension Plans and Illustrative Financial Statements, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide, Audits of Employee Benefit Plans.

Explanation of References:

<table>
<thead>
<tr>
<th>AC</th>
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<tr>
<td>AEBP</td>
<td>Audit and Accounting Guide Audit of Employee Benefit Plans (as of May 1, 1994)</td>
</tr>
<tr>
<td>AU</td>
<td>Reference to section number of AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<tr>
<td>EBPID</td>
<td>Employee Benefit Plans Industry Developments (1994)</td>
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<tr>
<td>EITF</td>
<td>Emerging Issues Task Force pronouncement</td>
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<tr>
<td>ET</td>
<td>Code of Professional Conduct in AICPA Professional Standards (vol. 2)</td>
</tr>
<tr>
<td>FAS</td>
<td>Financial Accounting Standards Board Pronouncements</td>
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<tr>
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<td>Quality Control Standards in AICPA Professional Standards (vol. 2)</td>
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<td>Statement on Auditing Standards</td>
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<td>SEC Practice Section Reference Manual</td>
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<td>SOP</td>
<td>AICPA Statement of Position</td>
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* 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 General Audit Engagement Checklist (audit checklist).
ENdAGEnEMENT PROFILE

Engagement Code No. ___________________________ Office ___________________________

Owner ______________________________________ Owner ___________________________
Manager _____________________________________ Manager _________________________
Concurring Reviewer** _________________________ Concurring Reviewer** ____________

This engagement involves reporting on:

( ) Defined Benefit Plan ______________________ ( ) Health and Welfare Plans
( ) Defined Contribution Plan (including profit-sharing and stock bonus 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:
Number of years assigned to this job Partner Manager (or equivalent)
Number of years in current position on the job ____________________

Audit hours on this engagement:

Prior to Commencement of Field Work During Field Work After Completion of Field Work

Owner ____________________ ____________________ ____________________
Manager (or equivalent) ____________________ ____________________ ____________________
Other ____________________ ____________________ ____________________
Total this office = Total budgeted = ____________________

* To determine the applicability of all cross-referenced pronouncements, consider their effective dates.
** Not applicable unless required by firm policy.
LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER
A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is a judgment call; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II and IV should be answered in addition to the key areas identified.

1.
2.
3.
4.
5.
6.

Date Engagement Review Performed ___________________  Date Checklist Reviewed  
by Team Captain __________________________________

Reviewer _________________________________________  Signature ________________________________
# Checklist for Review of Audits of Employee Benefit Plans

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<td>Assigning Personnel to Engagements</td>
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<td>Consultation</td>
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<td>Supervision</td>
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<td>Advancement</td>
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<td>5724</td>
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<tr>
<td>VI. Conclusions</td>
<td>5728</td>
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</tbody>
</table>

NOTE: This checklist has been updated through SAS No. 73, SFAS No. 117, and FASB Interpretation No. 40.
### 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.

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<tr>
<td>Auditor’s Report</td>
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<td>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 <em>not</em> each separate trust.) (AEBP, ch. 1, par. 1.14 and appendix A)</td>
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<td>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)</td>
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<td>Does the auditor’s report conform to the Audit and Accounting Guide—Audits of Employee Benefit Plans? (AEBP, ch. 13 and appendix A)</td>
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<td>Is the report dated in conformity with the requirements of professional standards? (AU Secs. 508.08 and .46 and 530)</td>
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<td>Does the report appropriately include the basic elements required under professional standards and is appropriate language used for modifying the report for circumstances described in such standards? (AU Secs. 505.08-.10 and 623)</td>
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<td>Does the report cover all periods for which financial statements are presented? (AU Sec. 508.08)</td>
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<td>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)</td>
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<td>If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking? (AU Secs. 551 and 558)</td>
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<td>If the audit was a limited scope audit permitted by DOL rules and regulations with respect to investment information, was this stated and a disclaimer issued? (AEBP, ch. 5, par. 5.2 and ch. 13, pars. 13.25-.28)</td>
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<td>Does the report identify and include an appropriate opinion on supplemental schedules required by ERISA and DOL regulations? (AEBP, ch. 13, pars. 9-13.18)</td>
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<td>Is the report appropriately modified for financial statements presented on a basis other than GAAP that is acceptable under ERISA or DOL regulations? (AEBP, ch. 13, pars. 13.19-.22)</td>
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<td>Is the auditor’s report on financial statements of defined benefit plans appropriately worded assuming either an End-of-Year Benefit Information Date or Beginning-of-Year Benefit Information Date? (AEBP, ch. 13, pars. 13.4-5)</td>
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*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.

AICPA Peer Review Program Manual

PRP § 5700
### Financial Statements and Footnotes

#### General

Are the financial statements suitably titled? (AU Sec. 623.07 and .24, AEBP, chs. 2 and 3, pars. 2.06-.08, 3.09-.11, and ch. 4, pars. 4.07-.08 or Appendix H, pars. 19-23)

Is the accounting appropriate and are the 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 accrued and/or disclosed 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. 560.01-.09 and 561)

Are adjustments of financial statements for prior periods 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 and 3, pars. 2.09-.13, 3.12-.16, and ch. 4, pars. 4.25a-b or Appendix H, pars. 25-27 and 52)
- 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 and 3, pars. 2.24a, 3.23a and ch. 4, par. 4.26a or Appendix H, par. 53)
- Description of significant plan amendments adopted during the year? (AEBP, chs. 2 and 3, pars. 2.24b, 3.23b and ch. 4, par. 4.26b or Appendix H, pars. 25-27 and 52)
- Description of the benefit priority and Pension Benefit Guarantee Coverage in the event of plan termination? (AEBP, ch. 2, par. 24c and Appendix H, par. 53)
- Description of funding policy? (AEBP, ch. 2, par. 24d and ch. 4, par. 4.26c or Appendix H, par. 53)
- Federal income tax status of the plan, including IRS tax ruling or determination letter? (AEBP, chs. 2 and 3, pars. 2.24f, 3.23f, and ch. 4, par. 4.26e or Appendix H, par. 53)

#### PRP § 5700

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Compliance with the ERISA requirement that reports under its jurisdiction must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," (which is more than is required by FASB Statement No. 35 as amended? (AEBP, ch. 2, par. 2.24f)

Identification of investments that represent 5% or more of total plan assets for health and welfare plans prior to adoption of SOP 92-6, or 5% or more of net assets available for benefits for health and welfare plans after adoption of SOP 92-6 and other defined contribution and defined benefit plans? (AEBP, chs. 2 and 3, pars. 2.24g and 3.23g, and ch. 4, par. 4.26f or Appendix H, par. 53)

Reporting significant real estate, or other transactions between related parties, or was the audit opinion appropriately modified? (AEBP, chs. 2 and 3, pars. 2.24h and 3.23h, ch. 4, par. 4.26g or Appendix H, par. 53 and ch. 11)

Prohibited transactions? (AEBP, ch. 11, par. 12)

Significant, unusual, or infrequent events of transactions occurring after the financial statement date but before issuance of the financial statements? (AEBP, chs. 2 and 3, pars. 2.24i and 3.23n, and ch. 4, par. 4.26h or Appendix H, par. 53)

Material lease commitments, other commitments, or contingent liabilities? (Appendix H, par. 53)

The assumed health care cost-trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year, a general description of the direction and pattern of change in the assumed trend rates thereafter, the ultimate trend rate(s), and when that rate is expected to be achieved. (Appendix H, par. 53)

For health and welfare benefit plans providing postretirement health care benefits, the effect of a one-percentage-point increase in the assumed health care cost-trend rates for each future year on the postretirement benefit obligation. (Appendix H, par. 53)

Any modification of the existing cost-sharing provisions that are encompassed by the substantive plan(s) and the existence and nature of any commitment to increase monetary benefits provided by the plan and their effect on the plan's financial statements. (Appendix H, par. 53)

Termination provisions of the plan and priorities for distribution of assets, if applicable. (Appendix H, par. 53)

Restrictions, if any, on plan assets (for example, legal restrictions on multiple trusts). (Appendix H, par. 53)

If the plan is subject to ERISA reporting requirements are the following schedules attached, if applicable: assets held for investment transactions with parties-in-interest, loans or fixed income obligations due in default or uncollectible, leases in default or uncollectible, and reportable transactions? (AEBP, chs. 2, 3, pars. 2.04, 3.06, Appendix A, par. A.51, and Appendix H, par. 53)

Have the proper disclosures been made, and the liquidation basis of accounting used for plan terminations? (AEBP, chs. 2, 3, pars. 2.31-.34, 3.30-.32 and Appendix H, pars. 57-60)
Is there a description of the policy regarding the purchase of insurance contracts that are excluded from plan benefits? (AEBP, chs. 2 and 3 pars. 2.24e, 3.23e, and ch. 4, par. 4.26d or Appendix H, par. 53)

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Is there a disclosure of amounts allocated to persons who have withdrawn from participation in the earnings and operations of the plan? Are such amounts excluded from liabilities on the financial statements? (AEBP, ch. 3, par. 3.23m)

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Are the amounts of unallocated assets disclosed as well as the basis used to allocate asset values to participants accounts when the basis differs from the one used to record assets in the financial statements? (AEBP, ch. 3, par. 3.23c)

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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 and ch. 4, par. 4.26(c) or Appendix H, par. 53)

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Are investments pledged to secure debt disclosed? (AEBP, ch. 3, par. 3.23i)

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Are guarantees by others of debt of the plan disclosed? (AEBP, ch. 3, par. 3.23j)

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If the plan provides for participant-directed investment options, are the investment programs disclosed on a separate fund basis? (AEBP, ch. 3, par. 3.23k)

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For plans that assign units to participants, is the proper unit information disclosed? (AEBP, ch. 3, par. 3.23l)

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Are changes in the actuarial present value of accumulated plan benefits including amendments, changes in actuarial assumptions, and nature of the plan (mergers, spinoffs, etc.), disclosed? (AEBP, ch. 2, par. 2.22)

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Is a prior-year statement of net assets and changes presented if beginning-of-year benefit information is used? (AC Sec. Pe 5.106)

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Is the actuarial present value of accumulated plan benefits, including vested benefits of participants currently receiving payments, other vested benefits, and non-vested benefits presented? (AEBP, ch. 2, pars. 2.18-.21)

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If subject to ERISA and DOL, is there a reconciliation between financial statements and form 5500 amounts, if applicable? (AEBP Appendix A, par. 50a)

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Are significant employer absorbed costs of plan administration disclosed? (AEBP, ch. 3, par. 3.23d ch. 4, par. 4.26(c) or Appendix H, par. 53, AC Sec. Pe5.127(d))

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**Statement of Net Assets Available for Benefits**

Is the presentation appropriate and is the disclosure adequate regarding:

- Investments (identified by type and presented at fair value)?
  (AEBP, chs. 2 and 3, pars. 2.09-.13 and 3.12-.16 and ch. 4, pars. 4.09-.11 or Appendix H, pars. 25-27)

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Information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk? (AEBP, chs. 2 and 3, pars. 2.25-.27, 3.24-.26, Appendix H, pars. 54-56)

Are unallocated insurance contracts reported on in accordance with ERISA and DOL? (AEBP, chs. 2 and 3 pars. 2.12 and 3.15, ch. 4, par. 4.10 or Appendix H, par. 26)

Contributions receivable? (AEBP, chs. 2 and 3, pars. 2.14-.15 and 3.17, ch. 4, par. 4.12 or Appendix H, par. 28)

Amounts receivable from brokers for securities sold?

Accrued interest and dividends?

Allowance for estimated uncollectible amounts? (AEBP, chs. 2, 3, pars. 2.14-.15, 3.17; Appendix H, par. 28)

Assets used in plan operations (e.g., buildings, equipment, furniture and fixtures and leasehold improvements) identified by type and presented at cost, less accumulated depreciation or amortization? (AEBP, ch. 3, par. 3.18 ch. 4, par. 4.13 or Appendix H, par. 32)

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. 14.14-.18 Appendix H, par. 36, 37, and 40-43)

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, 36-51).

For self-insured health and welfare plans, claims reported but not paid and claims incurred but not yet reported? (AEBP, ch. 4, pars. 4.19-.21, Appendix H, pars. 36, 39)

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. 2.07a., 3.10, ch. 4, par. 4.08 or Appendix H, par. 23 and Appendix A, par. A.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 and 3, pars. 2.17a and 3.20a, ch. 4, par. 4.23a or Appendix H, par. 34)

AICPA Peer Review Program Manual

PRP § 5700
<table>
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<th>Contributions from employer(s), employees, and other identified sources separately stated?</th>
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<td>(AEBP, chs. 2 and 3, pars. 2.17c, d, e and 3.20c, d, e and ch. 4, pars. 4.23c, d, e or Appendix H, par. 34)</td>
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<td>Payments to insurance companies to purchase contracts?</td>
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<td>(AEBP, chs. 2 and 3 pars. 2.17g and 3.20g, and ch. 4, par. 4.23g or Appendix H, par. 34)</td>
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<td>Investment income? (AEBP, chs. 2 and 3, pars. 2.17b and 3.20b, ch. 4, par. 4.23b or Appendix H, par. 34)</td>
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<td>Benefits paid to participants? (AEBP, chs. 2 and 3, pars. 2.17f and 3.20f, ch. 4, par. 4.23 or Appendix H, par. 34)</td>
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<td>Administrative expense? (AEBP, chs. 2 and 3, pars. 2.17h and 3.20h, ch. 4, par. 4.23i or Appendix H, par. 34)</td>
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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 the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated? (AU Secs. 312.12, 316.05 and 317.05)

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 of illegal acts that could be material to the financial statements? (AU Sec. 316.05 and 317.05)

Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures? (AU Sec. 329.01 and .06)

If the auditor succeeded another auditor, did the auditor:

Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity’s management on accounting or auditing matters and consider the implications of such matters in accepting the client? (AU Sec. 315.03 and .06)

Make other inquiries of the predecessor auditor on significant matters? (AU Sec. 315.08)

Review the predecessor auditor’s working papers, or obtain satisfaction by other means? (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 Secs. 319.16 and 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)

* 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.
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 control structure policies and procedures at the service organization that may affect the processing of the client’s transactions and internal control structure? (AU Sec. 324.06-.10)

If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor’s report that describes the results of the service auditor’s tests of operating effectiveness obtained; or were tests performed by the auditor at the service organization? (AU Sec. 324.14-.16)

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 when completed? (AU Sec. 339)

If statistical or nonstatistical sampling was used in test of controls (AU Secs. 319 and 350):

In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population? (AU Sec. 350.31)

Was the sample selected in such a way that it could be expected to be representative of the population? (AU Sec. 350.39)
If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were
the nature, timing and extent of the planned substantive procedures reevaluated based on a revised consideration of
assessed level of control risk for the relevant financial statement
assertions? (AU Sec. 350.40-.43)

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 evaluation of the adequacy of the sample size, does it
appear the firm gave appropriate consideration to the specific
audit objective, preliminary judgments about materiality levels,
acceptable level of risk of incorrect acceptance, and characteristics
of the population? (AU Sec. 350.16)

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 in 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 evaluating whether the financial statements may be materially
misstated, was appropriate consideration given, in the aggregate,
to projected misstatements resulting from all audit sampling
applications and to all known misstatements from non-sampling
applications? (AU Sec. 350.30)

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? (AU Secs. 326 and 342)

Did the auditor obtain written timely and appropriate
representations from management and was the representation letter
properly dated? (AU Sec. 333)

Did the auditor obtain timely and appropriate responses from the
entities' attorneys concerning litigation, claims, and assessments?
(AU Sec. 337.08-.14)

Have all questions, exceptions, or notes been followed up and
resolved?
Was appropriate consideration given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period? (AU Sec. 312.27 and .30)

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During the performance of the engagement, did the auditor:

- Follow up on errors and irregularities in accordance with professional standards? (AU Sec. 316.22-.29)
- 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 the 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 Sec. 317.10-.11)
- 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(s) involved senior management, and document that communication, and obtain assurance that all other illegal acts that came to the auditor’s attention were adequately communicated? (AU Sec. 317.17)

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 the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors? (AU Sec. 341.11)

If the auditor’s substantial doubt was not alleviated, did the auditor’s report include an explanatory paragraph that adequately communicated the auditor’s substantial doubt (e.g., include the terms “substantial doubt” and “going concern”)? (AU Sec. 341.12-.13)

During the performance of the audit:

- If there were reportable conditions identified were they communicated to the audit committee, management and others within the organization on a timely basis and if the communication was oral was it documented in the working papers? (AU Sec. 325.09)

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Does the auditor’s conclusions regarding whether internal control matters noted during the audit were (or were not) reportable conditions appear appropriate? (AU Sec. 325)  

If the report was issued on reportable conditions, did it indicate the purpose of the audit, was to report on the financial statements and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and include the restriction on distribution? (AU Sec. 325.11)  

Has the auditor complied with the requirement not to issue a letter stating that there were no reportable conditions? (AU Sec. 325.17)  

Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date but prior to the date of the report? (AU Sec. 560)  

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date which might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards in determining an appropriate course of action, including performing audit procedures to determine if there are any such events affecting the financial statements, and does the matter appear to be properly resolved? (AU Sec. 561)  

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 an audit committee or some other formal oversight committee or the client is an SEC engagement, did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process? (AU Sec. 380.01-.02)  

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)  

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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 above the name of the working paper area. (As indicated on page 5903, the reviewer should indicate the reason(s) for not reviewing a key audit area; in such circumstances, the reviewer should not place an “X” above the area.)

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☐ Not a key area

Cash

Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?

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)

☐ Not a key area

Investments

For trusteeed assets, did the audit procedures provide a reasonable basis for 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:

---

1 Complete only the sections for the key areas selected for review.

* The N/A column should be used when the item either does not exist or is not material.

** All “no” answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.

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Employee Benefit Plan Engagement Checklist

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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 investment arrangements with insurance companies in insurance contracts did the audit procedures consider or include:

- Contracts between the contract holder and the insurance company? (AEBP, ch. 7, par. 39a)
- Evidence regarding the existence and ownership of the contract, contributions, premium payments, income credits, etc., such as by direct confirmation and other means? (AEBP, ch. 7, par. 39b)
- Unusual circumstances which may affect the market value of the contract? (AEBP, ch. 7, par. 39c)
- Deposit Administration Contracts, interest credited in relation to minimum guaranteed interest? (AEBP, ch. 7, par. 40a)
- Rate of return for Immediate Participation Guarantee Contracts? (AEBP, ch. 7, par. 40b)
- Rates in annuity purchases consistent with contract stipulations? (AEBP, ch. 7, par. 40c)
- Reading the financial statements of the insurance company? (AEBP, ch. 7, par. 40d)
- Expenses charged to the contract in accordance with stipulations? (AEBP, ch. 7, par. 40e)
- Investments made in separate, or pooled separate accounts? (AEBP, ch. 7, par. 41a, b)

Did the audit procedures applied to the other types of investments consider investments in 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 the 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. 25-28)

□ Not a key area

Contributions Received and Related Receivables

For contributions received and related receivables, did the audit procedures used provide a reasonable basis for conclusions regarding:

- Employers’ and Employees’ contributions? (AEBP, ch. 8, par. 3a-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-b)
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)  

□ Not a key area  

**Receivables**  
Were amounts receivable from brokers for securities sold confirmed and appropriate follow-up steps taken, including second requests and alternate procedures?  

(AU Sec. 330.24-.30)  

BP328  

□ Not a key area  

**Property and Equipment Used in Plan Operations**  
Was a summary schedule prepared to show beginning balances, changes during the period and ending balances for:  

- Property and equipment used in plan operations?  
- Accumulated depreciation?  

Do tests appear adequate and were proper conclusions drawn with respect to:  

- Additions (e.g., by the examining supporting documents and/or physical inspection)?  
- Retirements, etc.?  
- The adequacy of the 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)  

□ Not a key area  

**Liabilities**  
Were other liabilities (including payables for securities purchased) adequately tested for existence?
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)

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed or, alternative procedures performed?

Were procedures performed to determine whether the carrying value of notes payable reflects the present value of the consideration received at the appropriate interest rate?

Do the working papers indicate that the auditor reviewed compliance with the covenants of the entity’s 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 benefit checks)? (AEBP, ch. 9, par. 3a-c)
  
  Payments made by third parties?
  (AEBP, ch. 9, par. 4)

  BP330

  BP331

- For defined contribution plans, did the audit procedures include or consider a comparison of disbursements to participants’ records?
  (AEBP, ch. 9, par. 3d)

  BP332

- For health and welfare plans, did the audit procedures include accrued benefits payable? (AEBP, ch. 9, par. 3f and g)

  BP333

☐ Not a key area

**Commitments and Contingencies**

Do the working papers contain evidence of the following:

- Inspection of minutes of meetings of relevant committees or boards?

  A477

- Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?

  A478

- Accumulation and analysis of confirmation responses from banks and lawyers?

  A479

- Inquiry and discussion with management including management’s written representations concerning liabilities, litigation, claims, assessments and regulatory requirements as applicable? (AU Secs. 333 and 337.05)

  A480

- Other contingent liabilities or possible guarantees?

  A481

Have all material contingencies been properly considered, documented, and reported? (AC Sec. C59)

A482
Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?

In limited-scope audits under DOL regulations, has the auditor ascertained that participant data was appropriately audited? (AEBP, ch. 13, par. 13.25)

☐

Participant Data
For participant data, did the audit procedures consider or include:
- Demographic data, payroll data, and benefits data? (AEBP, ch. 10, pars. 4 and 5)
- For multi-employer plans, were employer contribution reports compared to participant data? (AEBP, ch. 10, par. 5)
- For 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)
- Use of actuary’s work? (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)
- 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 and 29)
- Claims incurred but not paid? (AEBP, ch. 10, pars. 30 and 32)
- Premiums paid, and actuary’s data? (AEBP, ch. 10, pars. 28 and 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. 15.16)
- Risk areas, such as valuation of non-readily marketable securities or specialized investments? (AEBP, ch. 5, pars. 5.17-.20)
- 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. 11.9-.13)

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Reviewing the tax status of the plan and IRS determination letters? (AEBP, ch. 12, pars. 12.1-.3)

BP348

Administrative expenses? (AEBP, ch. 12, pars. 12.8-.9)

BP349

BP350

Reading the other information contained in the Form 5500? (AEBP, ch. 12, pars. 12.12-.14)

BP351

BP352

Reading the actuary's report, and reviewing the actuarial assumptions? (AEBP, ch. 10, pars. 10.18-.23)

BP353

Comparing the plan provisions to the plan instrument and changes in provisions by the Internal Revenue Code in effect as of the plan year-end? (AEBP, chs. 1, 8, 10, 12, pars. 1.18, 8.6a-b, 10.25a, 10.26a, 12.03)

BP354

BP355

If the work of a specialist was used, did the auditor apply the guidance in professional standards? (AU Sec. 336)

BP356

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, 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)
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? (ET Sec. 101)

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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)

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Was appropriate assurance of independence obtained from other firms engaged to audit segments or component units of the entity? (QC Sec. 90.10)

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</table>

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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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For SEC clients, if the fees (billed/unbilled) for the prior years' services were not paid prior to the commencement of the current engagement, were the SEC's rules for unpaid professional fees adhered to?

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<tr>
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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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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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)

<table>
<thead>
<tr>
<th>QUES.</th>
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Consultation (QC Sec. 10.07c)
Was there appropriate consultation and documentation:

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</table>

In situations specified by firm policy?

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<th>N/A</th>
<th>YES</th>
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Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

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<tr>
<th>QUES.</th>
<th>N/A</th>
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Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

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<tr>
<th>QUES.</th>
<th>N/A</th>
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Based on the facts and circumstances, were the firm's conclusions reasonable and consistent with professional standards?

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<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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</table>

Supervision (QC Sec. 10.07d)
Were appropriate and knowledgeable engagement personnel involved in the planning process? (QC Sec. 90.16)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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* 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.
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)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
<th>YES</th>
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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)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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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?

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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- Review of internal control structure:
  - Manual system?
  - EDP system?
  - Audit work programs?
  - Financial statement disclosures?

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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- Working papers and financial statement reviews?

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If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

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<thead>
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<th>QUES</th>
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<th>YES</th>
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Were the firm’s guidelines for the form and content of audit working papers complied with?

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
<th>YES</th>
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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)

<table>
<thead>
<tr>
<th>QUES</th>
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If required by firm policy, was an appropriate preissuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that work performed was complete and conformed to professional standards and firm policy and was that review documented?

<table>
<thead>
<tr>
<th>QUES</th>
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Advancement (QC Sec. 10.07g)

If required by firm policy, was the staff on this engagement appropriately evaluated? (QC Sec. 90.22)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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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)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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</table>

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)

<table>
<thead>
<tr>
<th>QUES</th>
<th>N/A</th>
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</table>
V. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

* 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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<table>
<thead>
<tr>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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Employee Benefit Plan Engagement Checklist

AICPA Peer Review Program Manual

PRP § 5700
<table>
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<th>Disposition of Comments</th>
</tr>
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Employee Benefit Plan Engagement Checklist

AICPA Peer Review Program Manual

PRP § 5700
VI. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards? (See AU 390 and ET 202)  
  YES * ______  NO ______

- The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor’s report was not appropriately modified? (See AU 561 and ET 203)  
  YES * ______  NO ______

- The auditor’s report was not appropriate in the circumstances?  
  YES * ______  NO ______

- The documentation on this engagement does not support the firm’s opinion on the financial statements?  
  YES ______  NO ______

- The firm did not comply with its policies and procedures on this engagement in all material respects?  
  YES ______  NO ______

* If this question is answered "yes," see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting On Peer Reviews.

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PRP Section 5800

Prospective Financial Statement Engagement Checklist

Instructions for Use of the Checklist for Review of Prospective Financial Statement Engagements

This checklist was developed for use by reviewers of prospective financial statement engagements. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in engagements involving prospective financial statements. All “No” answers must be thoroughly explained in Section IV of this checklist.

This checklist is not intended to be a document containing all disclosure and reporting procedures related to prospective financial statements. Rather, it is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate prospective financial engagements. These additional materials include the AICPA Checklist Supplement and Illustrative Financial Statements for Prospective Financial Statements, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide Guide for Prospective Financial Information.

Explanation of References:

AT Reference to section number in AICPA Professional Standards (vol. 1)
APFI AICPA Audit and Accounting Guide Guide for Prospective Financial Information
ET Code of Professional Conduct AICPA Professional Standards (vol. 2)
SAS AICPA Statements on Auditing Standards
SOP AICPA Statement of Position
QC Quality Control Standards AICPA Professional Standards (vol. 2)
On-Site Peer Review Engagement Checklists

ENGAGEMENT PROFILE

Engagement Code No. ____________________________ Office ____________________________
Owner ____________________________ Date of Financial Statements * ____________________________
Manager ____________________________ Date of Report ____________________________
Date Report Released ____________________________

The responsibility of this engagement involves reporting on:

1. ( ) compiled forecast ( ) other prospective financial information
   ( ) compiled projection (describe) ____________________________
   ( ) examination of a projection ____________________________
   ( ) examination of a forecast ____________________________

2. that (include) (omit) substantially all required disclosures and

3. that (include) (do not include) supplementary information.

The prospective financial statements are for an entity that is a (an):

( ) independent entity ( ) subsidiary, division or branch
( ) consolidated or combined group ( ) other (explain)

Date that the fee for the prior year’s services was paid, if applicable: ____________________________

Type of industry: Complex or troublesome assumptions and key factors:

Hours on this engagement:

Owner ____________________________
Manager (or equivalent) ____________________________
Senior ____________________________
Other ____________________________

Total this office ____________________________ Total budgeted ____________________________

* The effective date of all cross-referenced pronouncements should be considered in determining their applicability.

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## Checklist for Review of Prospective Financial Statement Engagements

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## I. REPORT AND FINANCIAL STATEMENTS

### 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)

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For a projection, does the title not imply that the presentation is a forecast?

| P102 |     |     |    |     |

For a projection, is the title descriptive of the presentation?

| P103 |     |     |    |     |

For a projection, does the title describe or refer to any significant hypothetical assumptions?

| P104 |     |     |    |     |

### Presentation

Are the following minimum financial statement items disclosed? (APFI Ch. 8, par. 06)

- (a) Sales or gross revenues?
- (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 judgment at the time the prospective information was prepared, and a caveat that the forecasted results may not be achieved? (APFI Ch. 8, par. 28)
- (k) Summary of significant assumptions?
- (l) Summary of significant accounting policies?

If item j or l above is omitted, is the accountant’s report modified to reflect this deficiency? (APFI Ch. 8, par. 08)

| P114 |     |     |    |     |

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)

| P117 |     |     |    |     |

| P118 |     |     |    |     |

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
Prospective Financial Statement Engagement Checklist

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 size of the range is so wide that it is not meaningful, or if the range is biased, did the accountant withdraw from the engagement? (APFI par. 10.15)

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)

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)

For a projection, if the hypothetical assumptions are improbable, is this disclosed? (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. 38)

### 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 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? (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)

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</table>
### Reports—Compilation

Does the accountant's standard report on a compilation of prospective financial statements include (AT Sec. 200.16):

1. An identification of the prospective financial statements presented by the responsible party?

   - P146

2. A statement that the accountant has compiled the prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants?

   - P147

3. 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?

   - P148

4. A caveat that the prospective results may not be achieved?

   - P149

5. A statement that the accountant assumes no responsibility to update the report for events and circumstances occurring after the date of the report?

   - P150

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)

- P151

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)

- P152

Was the date of the completion of the compilation procedures used as date of the report? (AT Sec. 200.20)

- P153

If the accountant was not independent, did he/she specifically disclose a lack of independence after the last paragraph of the standard compilation report? (AT Sec. 200.21)

- 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)

- P155

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)

- P156

If the accountant expands his/her report to emphasize a matter, was the information presented in a separate paragraph of the accountant's report? (AT Sec. 200.23)

- P157

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)

- P158
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?
- 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 opinion expressed? (AT Sec. 200.36)

If the presentation, including the summary of significant assumptions, fails to disclose any assumptions that, at the time, appear to be significant, did the accountant describe the assumptions in the report and issue an adverse opinion? (AT Sec. 200.40)
If the accountant believes that one or more significant assumptions do not provide a reasonable basis for the forecast, or a reasonable basis for the projection given the hypothetical assumptions, was an adverse opinion expressed? (AT Sec. 200.36)  

<table>
<thead>
<tr>
<th>QUESTIONS</th>
<th>YES</th>
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<td>P172</td>
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If the accountant’s examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, was an opinion disclaimed and the scope limitation described? (AT Sec. 200.36)

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<thead>
<tr>
<th>QUESTIONS</th>
<th>YES</th>
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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)

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<tr>
<th>QUESTIONS</th>
<th>YES</th>
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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 expressed, did the report contain an adverse opinion, or a disclaimer of opinion based on the circumstances?
- If an adverse opinion was expressed, did the accountant state all of the substantive reasons for such an 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 filing? (APFI Ch. 18, par. 04)

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<th>QUESTIONS</th>
<th>YES</th>
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Did the accountant perform the applicable steps below to determine that he/she had a reasonable basis for such consent (APFI Ch. 18, par. 04):

- Did the accountant perform procedures for the period from the date of examination up to the consent date and as is reasonable and practical in circumstances?
- 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 the responsible party as to whether there are any events, plans, or expectations that may require the forecast to be modified, or that should be disclosed in order that the forecast reflect the responsible party’s judgment based on present circumstances of the expected conditions and its expected course of action?

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 were considered necessary to dispose of questions that arose in carrying out the foregoing procedures?

If the accountant believes that the forecast, including the summary of significant assumptions, should be revised, was the client requested to revise its forecast and, if engaged to do so, examine the revised forecast? (APFI Ch. 18, par. 05)

If the client does not make appropriate revisions to the forecast, did the accountant refuse his/her consent to the use of the report in the registration statement? (APFI Ch. 18, par. 05)

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)
II. WORKING PAPERS

<table>
<thead>
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<th>QUES.</th>
<th>N/A*</th>
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Are the accountant's working papers in connection with the compilation or examination of financial forecasts appropriate in the circumstances? (APFI Ch. 12, par. 11 and AT Sec. 200.15 for compilations and APFI Ch. 15, par. 41 and AT Sec. 200.30 for examinations)

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 financial forecasts 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 an examination)
- 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 listing or obtaining a list of the responsible party's significant assumptions, and consider whether there were any obvious omissions in light of the key factors on which the prospective results appear to depend? (APFI Ch. 12, par. 10)
- For examinations by performing those procedures the accountant considers necessary in the circumstances to report on whether the assumptions provide a reasonable basis for the financial forecast? (APFI Ch. 15, par. 20)
- Perform or test the mathematical accuracy of computations that translate the assumptions into the prospective amounts in the financial forecasts? (APFI Ch. 12, par. 10 and Ch. 15, par. 35)
- 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)

* 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.

AICPA Peer Review Program Manual PRP § 5800
If the work of a specialist was used in an examination, was the
guidance provided in SAS No. 11, "Using the Work of a Specialist"
followed? (APFI Ch. 15, par. 39 and AT Sec. 100.10)

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)

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<th>QUES.</th>
<th>N/A</th>
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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)

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<th>QUES.</th>
<th>N/A</th>
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Was appropriate assurance of independence obtained from other firms engaged to examine segments or component units of the entity? (QC Sec. 90.10)

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<th>QUES.</th>
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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)

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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?

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**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)

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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)

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**Consultation** (QC Sec. 10.07c)

Was there appropriate consultation and documentation:

- In situations specified by firm policy? (QC Sec. 90.14)

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- Where the complexity or unusual nature of the issue warranted it? (QC Sec. 90.14)

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<th>QUES.</th>
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Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

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Based on the facts and circumstances, were the firm’s conclusions reasonable and consistent with professional standards?

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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)

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* 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.
**On-Site Peer Review Engagement Checklists**

**Supervision (QC Sec. 10.07d)**

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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?
- 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)**

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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)**

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</table>

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)**

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<th>QUES.</th>
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</table>

Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, GASB, AICPA, SEC, etc.)? (QC Sec. 90.20)
IV. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

* 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.
<table>
<thead>
<tr>
<th>Page Number</th>
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<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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On-Site Peer Review Engagement Checklists

PRP § 5800

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<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
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</thead>
</table>

Prospective Financial Statement Engagement Checklist

AICPA Peer Review Program Manual

PRP § 5800
V. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY “YES” ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

- The firm did not perform the engagement in all material respects in accordance with professional standards (see ET 202)?
  - YES* ____ NO____

- The prospective financial statements were not presented fairly in all material respects and the firm’s report was not appropriately modified (see ET 203)?
  - YES ____ NO____

- The firm’s report was not appropriate in the circumstances?
  - YES ____ NO____

- The documentation on this engagement does not support the firm’s report on the prospective financial statements?
  - YES ____ NO____

- The firm did not comply with its policies and procedures on this engagement in all material respects?
  - YES ____ NO____

* If this question is answered “yes,” see additional guidance contained in paragraphs 45 and 46 of the Standards for Performing and Reporting on Peer Reviews.
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</table>

[The next page is 6011.]
PRP Section 6010
Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

Instructions for Use of the Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

This supplemental checklist was developed for use by reviewers of banks and savings institutions audit engagements. It should be used in conjunction with the General Audit Engagement Checklist (audit checklist) and other guidance materials issued to implement the peer review program. The instructions to Sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of banks and savings institutions. All “No” answers must be thoroughly explained in Section VI of the audit checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to the financial statements of banks and savings institutions. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and audit procedure issues in order to sufficiently evaluate 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 Peer Review Division.
Explanation of References:

AAGB  AICPA Industry Audit Guide Audits of Banks as of May 1, 1993 (for depository institutions insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation)

AAGS  AICPA Audit and Accounting Guide Audits of Savings Institutions as of May 1, 1993 (for depository institutions insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation)

AC    Reference to section number in FASB Accounting Standards Current Text

AT    Reference to section number for Statement on Standards for Attestation Engagements AICPA Professional Standards (vol. 1)

AU    Reference to section number for Statement on Auditing Standards AICPA Professional Standards (vol. 1)

CFR   Code of Federal Regulations

EITF  Emerging Issues Task Force Consensus

ET    Code of Professional Conduct AICPA Professional Standards (vol. 2)

FAS   Financial Accounting Standards Board Pronouncements

FDI ACT  Federal Deposit Insurance Act

SOP   AICPA Statement of Position

SX    Securities and Exchange Commission Regulation S-X
Supplemental Checklist for Review of Banks and Savings Institutions Audit Engagements

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\(^1\) Refer to AICPA Financial Reporting Practice Aids Checklists and Illustrative Financial Statements for Banks, Checklists and Illustrative Financial Statements for Savings Institutions or other similarly comprehensive materials; the AICPA Industry Audit Guide Audits of Banks and the AICPA Audit and Accounting Guide Audits of Savings Institutions (see instructions on PRP § 6011).

\(^2\) Reviewers should refer to the instructions for the applicable section included in the General Audit Engagement Checklist.

\(^3\) Refer to AICPA Industry Audit Guide Audits of Banks, the AICPA Audit and Accounting Guide Audits of Savings Institutions and the AICPA Auditing Procedure Study Auditing the Allowance for Credit Losses of Banks (see instructions on PRP § 6011).
# I. REPORT AND FINANCIAL STATEMENTS

**Financial Statements and Notes**

Is the presentation appropriate and is the disclosure adequate regarding:

- Cash and Due from Banks? (AAGB Ch. 4, pars. 11 and 12)  
  QUES. N/A* YES NO REF.**

- Loans by category (AAGB, Ch. 7, pars. 43-50 and AAGS, 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)? (AAGB, Ch. 7 and Ch. 8, and AAGS, Ch. 7, pars. 3-10)  
  QUES. N/A* YES NO REF.**

- Loans on nonaccrual basis, and the effect of such loans on income? (AAGB, Ch. 7, par. 45)  
  QUES. N/A* YES NO REF.**

- Domestic and foreign deposits (separately shown and disclosing interest or non-interest-bearing portions, amounts and maturities of certificates of deposit of $100,000 or greater, large concentrations and related parties)? (AAGB, Ch. 12, pars. 17-18 and AAGS, Ch. 13, par. 26)  
  QUES. N/A* YES NO REF.**

- Federal fund purchases, securities sold under repurchase agreements and other short-term borrowings (presented at gross amounts)? (AAGB, Ch. 9, par. 9 and AAGS, Ch. 3, par. 23)  
  QUES. N/A* YES NO REF.**

- Exclusion of trust assets? (AAGB, Ch. 18)  
  QUES. N/A* YES NO REF.**

- Material interest-bearing deposits in other depository institutions (separately disclosed)? (AAGB, Ch. 4, pars. 11 and 12 and AAGS, Ch. 10, par. 2)  
  QUES. N/A* YES NO REF.**

- Federal funds sold and securities purchased under resale agreements (presented at gross amounts)? (AAGB, Ch. 9, par. 9 and AAGS, Ch. 3, par. 23)  
  QUES. N/A* YES NO REF.**

- Trading assets and related futures contracts? (AAGB, Ch. 6, pars. 12 and 13 and AAGS, Ch. 16, pars. 65-84)  
  QUES. N/A* YES NO REF.**

- Mortgage loans and mortgage-backed securities held for sale? (AC, Sec. Mo4.129-.131 and AAGS, Ch. 4, pars. 17-23)  
  QUES. N/A* YES NO REF.**

- Investment securities (disclosed separately) at the aggregate carrying value, gross unrealized gains, gross unrealized losses and market value? (AAGB, Ch. 5, pars. 25-30 and Appendix I, and AAGS, Ch. 3, pars. 4-35)  
  QUES. N/A* YES NO REF.**

- Loan commitments and unused lines of credit for short-term financing? (AAGB, Ch. 22, pars. 23-25 and AAGS, Ch. 6, par. 53–4)  
  QUES. N/A* YES NO REF.**

- Amount of bank acceptances (separately stated)? (AAGB, Ch. 14)  
  QUES. 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 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.
"Other" assets or liabilities that individually exceed 30% of stockholders' equity (separately stated), if applicable? (Reg. S-X 9-03.10)

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)

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)

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)

Has the client disclosed all significant regulatory supervisory agreements, orders or other regulatory actions? (AC Sec. C59 and AU Sec. 341)

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?

Fees or commissions paid to officers and directors, or their affiliates?

If applicable (institutions with $150 million in assets), were financial instruments for which it is practicable to estimate a fair value disclosed (AC Sec. F25.115):

Fair value of the financial instrument?

Method(s) and significant assumptions used to estimate the fair value?

If applicable (institutions with $150 million in assets), were financial instruments for which it is not practicable to estimate a fair value disclosed (AC Sec. F25):

Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

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 Act (FDI Act Section 36 as Implemented by 12 CFR 363):

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? (12 CFR 363.2(a))
Has an agreed-upon procedures attestation report been issued relative to management’s compliance with designated laws and regulations? (12 CFR 363.2(a))

If FAS Nos. 114 and 118 were applicable to this engagement (either as a result of the statement’s effective date or an early application of the statement) have the following been disclosed:

The recorded investment in impaired loans and the total allowance for credit losses related to impaired loans?

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 appropriate income recognition policies and related disclosures?

Were fair value disclosures appropriately presented for debt and equity securities? (SOP 90-11 and FAS No. 115)
II. WORKING PAPER AREAS—BANKS AND SAVINGS INSTITUTIONS

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A *</th>
<th>YES</th>
<th>NO</th>
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□

General

Do the engagement planning and audit working papers consider apparent fraud and insider abuse and the results of inquiries, readings, changes in the economy and concentration of risks, excerpts or other evidence of an understanding of regulatory examinations, their findings and actions? (AU Secs. 316 and 317)

Did the independent auditor consider the regulatory requirements, such as appropriate capitalization, as they affect the industry? (AU 311)

Did the independent auditor review reports of significant examinations and related communications between examiners and the financial institution and, when appropriate, make inquiries of the examiners? (SOP 90-5 and AAGB, Ch. 2, pars. 31-33)

Did the independent auditor's evaluation of the client's ability to remain a going concern consider the effects of provisions of the FDI Act that affect the client's liquidity including limitations on:

- Acceptance of brokered deposits?
- The availability of borrowings through the Federal Reserve discount window?
- Exposure to the client posed by transactions with correspondent banks and related interbank liabilities?

Was the independent auditor aware that loans from the client would be in violation of ET Sec. 101-1A? (Note to reviewer: ET Sec. 101-1A does not permit exceptions based on materiality)

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? (AAGB, Ch. 5, par. 6 and AAGS, 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)

□

* 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.
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?  

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<tr>
<th>QUES.</th>
<th>N/A</th>
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Were agreed-upon procedures relative to management’s assertion about compliance with designated laws performed in accordance with Statements on Standards for Attestation Engagements and FDI Act guidelines relative to (Appendix A to 12 CFR 363):

- 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? (Note to reviewer: Applicable to institutions with over $500 million in assets under the FDI Act.)

| B316  |     |     |    |     |

Loans (AAGB, Ch. 7 and Ch. 8 and AAGS, Ch. 6 and Ch. 7)

Did the loan evaluation consider or include:

- Lending policies and procedures, including control over loan file documentation and maintenance?  
- 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?

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Did the work include the review of individual loan files including borrowers’ financial statements, evidence of collateral and cash flow information?

| B332  |     |     |    |     |

PRP § 6010

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Did the work include a determination of whether or not the entity had entered into acquisition, development or construction (ADC) arrangements and that such arrangements were appropriately accounted for? (Practice Bulletin 1 and EITF 86-21)

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?

Providing evidence of the institution's compliance with the requirements of AC Sec. L20 (FAS No. 91)—Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, in the engagement working papers?

Confirmation with customers?

Proper accounting recognition of unearned income, interest income, points, recognition of acquisition and other fees and requirements of AC Sec. L20 (FAS No. 91)?

Were audit procedures performed to test accrued interest receivable, unearned discount and interest income on sample groups of loans? (AAGB, Ch. 7, par. 58)

Were appropriate substantive procedures, or at a minimum analytical procedures, performed to test interest income overall for all major loan categories? (AAGB, Ch. 7, par. 58)

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?

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  
(AAGB, Ch. 11 and Appendix J and AAGS, 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)  
  QUES. N/A YES NO REF. B347

- Continuing carrying values assessed, including those for in-substance foreclosures?  
  QUES. N/A YES NO REF. B348

- Loans restructured by the client properly recorded under the principles of AC Sec. D22? (FAS No. 15)  
  QUES. N/A YES NO REF. B349

Were sales of foreclosed real estate and other assets financed by the institution tested for proper accounting treatment? (SOP 92-3 and FAS No. 66)  
  QUES. N/A YES NO REF. B350

□

Deposits (AAGB, Ch. 12)

- Were appropriate audit procedures performed to test the underlying balances of the subsidiary deposit records with the general ledger control accounts? (AAGB, Ch. 12, par. 21)  
  QUES. N/A YES NO REF. B351

- Were deposit accounts confirmed and appropriate follow-up steps taken, including second requests and alternative procedures? (AU Sec. 330 and AAGB, Ch. 12, pars. 25-28)  
  QUES. N/A YES NO REF. B352

- Was accrued interest payable, interest expense and service charge income tested in connection with the audit of deposits? (AAGB, Ch. 12, par. 29)  
  QUES. N/A YES NO REF. B353

- Were appropriate substantive procedures, or at a minimum analytical procedures, performed to test interest expense overall for all major deposit categories? (AAGB, Ch. 12, par. 29)  
  QUES. N/A YES NO REF. B354

- Based on the assessment of control risk, do the substantive tests of deposit accounts appear reasonable? (AU Sec.319)  
  QUES. N/A YES NO REF. B355

□

Directors’ Examinations (AAGB, Appendix C)

Procedures may be limited in a directors’ examination; therefore, were the following considered:

- Clearly setting forth in the engagement letter the nature and extent of procedures?  
  QUES. N/A YES NO REF. B356

- Federal and state regulations and requirements in the determination of the engagement scope?  
  QUES. N/A YES NO REF. B357
Compliance with the provisions of the following, if the examination consisted of performing certain agreed-upon procedures:

- AU Sec. 622 for procedures on specified elements, accounts, or items of a financial statement?
- AT Sec. 400 for procedures related to internal controls over financial reporting?
- AT Sec. 500 for procedures related to compliance with laws and regulations?

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<th>QUES.</th>
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**Bank Trust Operations (AAGB, Ch. 18)**

Were the audit procedures directed to uncover the existence of contingent liabilities arising from trust department operations and the bank's fiduciary responsibilities?

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<tr>
<th>QUES.</th>
<th>N/A*</th>
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PRP Section 6030

Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

Instructions for Use of the Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

This supplemental checklist was developed for use by reviewers of Voluntary Health and Welfare Organizations engagements. It should be used in conjunction with the Not-for-Profit Audit Engagement Checklist (audit checklist) or, 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. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Voluntary Health and Welfare Organizations. However, when completing section II, "Working Paper Areas," some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All "No" answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

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 Peer Review Division.

Explanation of References:

<table>
<thead>
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<th>Code</th>
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</tr>
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<td>AU</td>
<td>Reference to section number in AICPA Professional Standards (vol. 1)</td>
</tr>
<tr>
<td>FAS</td>
<td>Statement of Financial Accounting Standards</td>
</tr>
<tr>
<td>SOP</td>
<td>AICPA Statement of Position</td>
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<tr>
<td>VHW</td>
<td>AICPA Audit and Accounting Guide Audits of Voluntary Health and Welfare Organizations (as of May 1, 1994)</td>
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AICPA Peer Review Program Manual

PRP § 6030
Supplemental Checklist for Review of Voluntary Health and Welfare Organizations Engagements

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1 Refer to the AICPA Industry Audit Guide Audits of Voluntary Health and Welfare Organizations (see instructions on 6031).

2 Reviewers should refer to the instructions for the applicable section included in the Not-for-Profit Audit Engagement Checklist or the appropriate section of the compilation or review checklist.

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# I. REPORT AND FINANCIAL STATEMENTS

## Financial Statements and Notes

Is the presentation appropriate and disclosure adequate in the following aspects of the engagement:

1. Does the balance sheet show the unrestricted fund and the various types of restricted funds that have been established to comply with donor or grantor restrictions?
   - Yes
   - No
   - N/A
   - Reference
2. Do the financial statements contain a statement of functional expenses in support of the total program and supporting services expenses for the period?
   - Yes
   - No
   - N/A
   - Reference
3. 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
   - Yes
   - No
   - N/A
   - Reference
4. 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, and raising matching gifts by a specified date? (FAS No. 116, par. 25)*
   - Yes
   - No
   - N/A
   - Reference
5. Is there separate disclosure of the costs for program services, management and general activities and fund-raising efforts? (VHW, Ch. 6, par. 3)
   - Yes
   - No
   - N/A
   - Reference
6. Is there disclosure of the methods followed by the organization in evaluating, recording, and reporting donated services, and is the distinction made between donated services for which values have been recorded and those for which they have not been recorded? (VHW, Ch. 5, par. 5.07)
   - Yes
   - No
   - N/A
   - Reference
7. 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)
   - Yes
   - No
   - N/A
   - Reference
8. Is the total support from fund-raising efforts disclosed? (VHW, Ch. 6, par. 13)
   - Yes
   - No
   - N/A
   - Reference
9. Is the total cost of fund-raising activities disclosed? (VHW, Ch. 6, par. 13)
   - Yes
   - No
   - N/A
   - Reference
10. 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, par. 6.17 and Ch. 8, par. 2)
    - Yes
    - No
    - N/A
    - Reference

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.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
II. WORKING PAPER AREAS—VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS

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General

If reporting on consolidated financial statements, where one or
more affiliated entities were examined by other independent
auditors, was consideration given to AU Sec. 543. Part of Audit
Performed by Other Auditors? (VHW, Ch. 7, par. 10)

Fund Accounting

Were the unrestricted resources of the organization used in
accordance with its bylaws and stated purposes and actions of its
governing board? (VHW, Ch. 1, par. 15)

Were restricted gifts or grants properly segregated and used in
accordance with the restrictions imposed by the donor or grantor,
and were 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 of investments included in revenues
(or other expenses) of the appropriate fund? (VHW, Ch. 2, par. 4)

Were restrictions made by the donor or grantor regarding
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 of certain funds from being pooled for
investment purposes? (VHW, Ch. 2, par. 17)

Land, Building and Equipment

Are fixed assets recorded in a separate land, buildings and
equipment fund? (VHW, Ch. 3, par. 1)

Were donated fixed assets recorded at their fair value at the date of
the gift? (VHW, Ch. 3, par. 3)

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* Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

** The N/A column should be used when the item either does not exist or is not material.

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*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.

PRP § 6030

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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 reasonable assurance that the amounts reported as contributions are not materially misstated? (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 the opinion on the financial statements appropriately qualified or disclaimed? (VHW, Ch. 4, par. 15)

Pledges receivable

Have 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) Relevant to VHW entities:

Were pledges confirmed? (VHW Ch. 4, par. 16)

☐

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 the budget or with prior years? (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) required specialized skills, and were provided by individuals possessing such skills, and would typically need to be purchased, if not provided by donation? (C67.109)

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 relation to the local labor market? (VHW, Ch. 5, par. 12)
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)

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[The next page is 6041.]
PRP Section 6040

Supplemental Checklist for Review of Construction Contractor Engagements

Instructions for Use of the Supplemental Checklist for Review of Construction Contractor Engagements

This supplemental checklist was developed for use by reviewers of construction contractor engagements. It should be used in conjunction with the General Audit Engagement Checklist (audit checklist) or, where appropriate, the General Compilation Engagement Checklist (compilation checklist) or the General Review Engagement Checklist (review checklist) and other guidance materials issued to implement the peer review program. The instructions to sections I and III of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions, or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in an audit, review, or compilation of the financial statements of construction contractors. However, when completing section II, “Working Paper Areas”, some questions may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All “No” answers must be thoroughly explained in Section VI of the audit checklist or Section V of the compilation checklist, or Section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosures and audit procedures related to construction contractors. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure, and procedural issues in order to sufficiently evaluate construction contractor engagements. These additional materials include the AICPA Financial Reporting Practice Aid Checklist Supplement and Illustrative Financial Statements for Construction Contractors, or other similarly comprehensive disclosure materials, and the AICPA Audit and Accounting Guide Construction Contractors.

This is part of a series of supplemental checklists which the Institute is developing to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

CC     AICPA Audit and Accounting Guide Construction Contractors (as of May 1, 1994)
SOP    AICPA Statement of Position
TPA    Technical Practice Aid

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Supplemental Checklist for Review of Construction Contractor Engagements

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¹ Refer to—the AICPA Financial Reporting Practice Aid *Checklist Supplement and Illustrative Financial Statements for Construction Contractors*, or other similarly comprehensive materials, and the AICPA Audit and Accounting Guide *Construction Contractors* (see instructions on 6041).

² Reviewers should refer to the instructions for the applicable section included in the *General Audit Engagement Checklist* or the appropriate section of the compilation or review checklist.

³ Refer to—the AICPA Audit and Accounting Guide *Construction Contractors* and AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (see instructions on 6041).
**I. REPORT AND FINANCIAL STATEMENTS**

### Financial Statements and Notes

Is the presentation appropriate and is the disclosure adequate regarding the following:

**General**

- The method of measuring extent of progress toward completion of contracts when the percentage-of-completion method is used? (SOP 81-1, par. 45)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- The reasons for selecting the completed-contract method if that method is used? (CC, Ch. 6, par. 21c, 2)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- The specific criteria used to determine when a contract is substantially complete when the completed-contract method is used? (SOP 81-1, par. 52)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- Policies relating to combining and segmenting contracts, if applicable? (SOP 81-1, pars. 39-42)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- Method of reporting affiliated entities? (CC, ch. 6, par. 21a)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- The range of contract durations if the operating cycle exceeds one year? (CC, Ch. 6, par. 21b)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- Method of reporting joint venture investments along with other joint venture disclosures? (CC, Ch. 6, par. 21d)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- 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?
  - The basis on which such items are recorded?
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- 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. 21f)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- The amount of progress payments netted against contract costs at the date of the balance sheet? (CC, Ch. 6, par. 21e, 2)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- The effect of significant revisions of estimates where the effect is material? (SOP 81-1, par. 84)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- 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)
  - QUES.  
  - N/A  
  - YES  
  - NO  
  - REF.

- Consideration of any state statutes and government prequalification reporting requirements affecting construction contractors? (CC, Ch. 11, pars. 14 and 15)
  - QUES.  
  - 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 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.**

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AICPA Peer Review Program Manual  

PRP § 6040
Provision for losses on a contract where it is material in amount, or unusual or infrequent in nature. Are such losses shown separately as a component of cost included in the computation of gross profit? (SOP 81-1, par. 88)

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?

Has disclosure been made of the prerequisites for billings, of amounts representing the recognized sales value of performance under contracts in which the amounts had not been billed and were not billable to customers at the balance sheet date, including amounts to be collected after one year? (CC, Ch. 6, par. 25)

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 in some contracts, and billings exceed costs and estimated earnings on others, are the contracts segregated so that figures on the asset side include only those on which costs and estimated earnings exceed billings, and those on the liability side include only those on which billings exceed costs and estimated earnings? (CC, Ch. 6, par. 18)

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)
Supplemental Checklist for Review of Construction Contractor Engagements

II. WORKING PAPER AREAS—CONSTRUCTION CONTRACTORS

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□

General
Did the auditor appropriately plan the audit, and review outstanding contracts?

Contract Costs, Revenues, and Income
Is each contract a profit center for revenue recognition, cost accumulation, and income measurement, or are contracts properly combined or segmented? (SOP 81-1, pars. 34-42)

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)

Contracts Receivable
Did the contracts 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?

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.

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**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? (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)

  - Is the distinction between long-term and short-term construction contracts appropriate? (TPA 6700.01)

---

[The next page is 6061.]
PRP Section 6060

Supplemental Checklist for Review of Common Interest Realty Associations

Instructions for Use of the Supplemental Checklist for Review of Common Interest Realty Associations

This supplemental checklist was developed for use by reviewers of Common Interest Realty Associations (CIRAs) audit engagements. It should be used in conjunction with either the Not-for-Profit Audit Engagement Checklist or, if the entity does not use fund reporting, the General Audit Engagement Checklist (audit checklists) and other guidance materials issued to implement the peer review program. The instructions to sections I and III of the audit checklists should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the examination of financial statements of CIRAs.(1) It is not intended to be an all-inclusive document containing all disclosure and audit procedures related to CIRAs. It is a summarization of commonly addressed key areas and related concepts or procedures. All “No” answers must be thoroughly explained in Section VI of the audit checklists.

This is part of a series of supplemental checklists which the Institute intends to develop to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

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(1) Reviewers of CIRA review and compilation engagements may find section I of this supplemental checklist useful in addition to the General Compilation Engagement Checklist and the General Review Checklist. Reviewers should also refer to Chapter 8 on Review and Compilation Engagements in the AICPA Audit and Accounting Guide Audits of Common Interest Realty Associations and SOP 93-5 Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations, which amends Chapter 8 in the AICPA Audit and Accounting Guide.
Supplemental Checklist for Review of Common Interest Realty Associations Audit Engagements

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(1) Reviewers should refer to the instructions for the applicable section included in the Not-for-Profit Audit Engagement Checklist or the General Audit Engagement Checklist.

(2) Refer to the AICPA Audit and Accounting Guide Audits of Common Interest Realty Associations (see instructions on 6061).

PRP § 6060

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I. REPORT AND FINANCIAL STATEMENTS

**Auditor's Report**

Does the audit report disclaim an opinion on required supplementary 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 supplementary information is omitted, the auditor was unable to complete certain stated procedures, the auditor is unable to remove substantial doubts about whether the supplementary information conforms to prescribed guidelines, or the auditor has concluded that the measurement or presentation of the supplementary information departs materially from prescribed guidelines? (CIRA, Ch. 7, par. 39)

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 in accordance with 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, pars. 34-37)

**Financial Statements and Notes**

Is the presentation appropriate and are the disclosures adequate regarding:

**General**

In the CIRA’s use of fund reporting, are resources for particular purposes (major repairs and replacements for CIRAs) classified into funds associated with specified activities or objectives? (CIRA, Ch. 4, par. 01)

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 does not use fund reporting and assesses for major repairs and replacements, is there an appropriation of retained earnings for such assessments? (CIRA, Ch. 4, FN. 6 and Ch. 9, par. 12)

Are periodic assessments for funding major repairs and replacements in the replacement fund presented in the periods in which they are assessed? (CIRA, Ch. 4, par. 13)

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AICPA Peer Review Program Manual

PRP § 6060
Is the CIRA’s legal form disclosed and that of the entity for which it provides services and areas it controls? (CIRA, Ch. 4, par. 22)
Are the number of units disclosed, including units owned by the developer? (CIRA, Ch. 4, par. 22)
Are services disclosed and subsidies provided by the developer? (CIRA, Ch. 4, par. 22)
Is the CIRA’s income tax filing status disclosed and its liability for income taxes? (CIRA, Ch. 4, par. 22, Ch. 6, Ch. 9, par. 9.18-.24)
Are tax credits and carryovers disclosed, including phase-out rules in future reporting periods? (CIRA, Ch. 4, par. 22)
Is the proposed and actual use for funds collected in special assessments disclosed? (CIRA, Ch. 4, par. 22)

**Future Major Repairs and Replacements**
(CIRA, Ch. 4, par. 26)
Are the requirements to accumulate funds for future major repairs and replacements disclosed?
Is a description of the CIRA’s funding policy and compliance with that policy provided?
Do the notes include a statement that funds are being accumulated based on estimated future (or current) costs, that actual expenditures may vary from these estimates, and that the variations may be material?
Do the financial statements or notes disclose the amounts assessed for major repairs and replacements in the current period?
Do the notes include a statement indicating whether a study was conducted to estimate the remaining useful lives and the costs of future major repairs and replacements?
If the CIRA’s policy is to fund future major repairs and replacements by special assessments or borrowings, is there a statement disclosing such policy?

**Common Property** (CIRA, Ch. 2, par. 13)
The accounting policy for recognition and measurement of common property?
A description of the common property capitalized in the CIRA’s balance sheet?
A description of the common property to which the CIRA has title, or other evidence of ownership, that is not capitalized in the CIRA’s balance sheet?
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?

**Related Parties**
Do notes include disclosures about:
Revenue from each source if 10% or more of revenues are derived from any one source? (CIRA, Ch. 4, par. 24)
Services provided by board members, officers, or developers? (CIRA, Ch. 4, par. 23)

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<thead>
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### Supplementary Information on Future Major Repairs and Replacements (CIRA, Ch. 4, par. 30)

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<td>Are the specific components of common property identified, and are the remaining useful lives presented?</td>
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<td>Is the estimated annual funding requirement presented?</td>
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<td>Are estimated current or future replacement costs presented?</td>
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<tr>
<td>Are the methods used to determine the estimated costs described?</td>
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<td>Is the basis for the calculations disclosed, including assumptions about interest and inflation rates?</td>
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<td>Are the dates and sources of studies disclosed?</td>
<td>CR230</td>
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<tr>
<td>Is the amount of fund balance for each component presented?</td>
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### II. WORKING PAPER AREAS—CIRAs

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<tr>
<td>□ General</td>
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<td>CR300</td>
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<tr>
<td>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)</td>
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<tr>
<td>If the audit is for the CIRA's first period of operations, did the auditor: Review closing documents to evaluate the recording of initial capital contributions collected from unit owners by the developer on behalf of the CIRA? (CIRA, Ch. 7, par. 19)</td>
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<tr>
<td>Consider whether the developer has fulfilled its obligation to pay assessments on unsold units or to fund operating deficits? (CIRA, Ch. 7, par. 19)</td>
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<tr>
<td>Consider whether or not the CIRA has been paying for developer related expenses? (CIRA, Ch. 7, par. 19)</td>
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<tr>
<td>Determine that assets received from the developer are reported in accordance with the capitalization policy for common property? (CIRA, Ch. 7, par. 19)</td>
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<td>CR304</td>
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<tr>
<td>Consider the CIRA's budgeting procedures in obtaining an understanding of the internal control structure and assessing control risk? (CIRA, Ch. 7, par. 21)</td>
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<td>CR305</td>
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<tr>
<td>□ Assessments (CIRA, Ch. 7, par. 24)</td>
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<td>CR306</td>
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<tr>
<td>Did the auditor compare reported assessments with budgeted amounts and test whether amounts assessed to owners were consistent with the budget?</td>
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<tr>
<td>□ Investments (CIRA, Ch. 7, par. 26)</td>
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<tr>
<td>Did the auditor verify that investments conform to the CIRA’s legal requirements and its governing documents?</td>
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<td>□ Insurance (CIRA, Ch. 7, par. 28)</td>
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<td>CR308</td>
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<tr>
<td>Did the auditor consider whether a CIRA’s insurance coverage complies with requirements of state statutes on the governing documents?</td>
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<tr>
<td>□ Future Major Repairs and Replacements</td>
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<td>CR309</td>
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<tr>
<td>Did the auditor review the CIRA’s governing documents and relevant state statutes to determine whether the CIRA is required to have a funding policy for future major repairs and replacements? (CIRA, Ch. 7, par. 29)</td>
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<tr>
<td>Did the auditor apply appropriate procedures to the required supplementary information about future major repairs and replacements? (CIRA, Ch. 7, par. 31)</td>
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<td>CR310</td>
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</tbody>
</table>

* 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.

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PRP Section 6070

Supplemental Checklist for Review of Providers of Health Care Services Engagements

Instructions for Use of the Supplemental Checklist for Review of Providers of Health Care Services Engagements

This supplemental checklist was developed for use by reviewers of Providers of Health Care Services engagements. It should be used in conjunction with the Not-for-Profit Audit Engagement Checklist or, where appropriate, the General Audit Engagement Checklist if the entity is a for-profit health care provider, the Governmental Audit Engagement Checklist for governmental health care providers, the General Review Engagement Checklist or General Compilation Engagement Checklist if applicable. In addition, the reviewer should complete section III of the Not-for-Profit Audit Engagement Checklist if the entity is contractually required to submit reports prepared in accordance with OMB Circular A-133. The instructions to sections I and IV of the audit checklist, or sections I and III of the compilation or review checklist, should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor/accountant in the preparation of the financial statements of Providers of Health Care Services. Some of the questions are example presentation and disclosures or auditing procedures contained in the AICPA Audit and Accounting Guide Audits of Providers of Health Care Services (the Guide). It is not expected that all of the questions in this checklist will be applicable to every engagement. In some instances, the audit objectives described in the Guide may be accomplished by the performance of procedures not included in this checklist. Therefore, reviewers should use judgment and refer to the Guide as necessary when responding to questions. Also, section II, “Working Paper Areas,” contains questions that may not apply to compilation or review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed. All “No” answers must be thoroughly explained in section VI of the audit checklist or section V of the compilation checklist or section IV of the review checklist.

This checklist is not intended to be an all-inclusive document containing all disclosure and audit procedures related to Providers of Health Care Services. It is a summarization of commonly addressed key areas and related concepts or procedures. Therefore, it should be used in conjunction with various reference materials dealing with reporting, disclosure and procedural issues in order to sufficiently evaluate Providers of Health Care Services engagements. These additional materials include the Guide.

This is part of a series of supplemental checklists which the Institute develops to facilitate the reviews of engagements within specialized industries. If you have any comments concerning this supplemental checklist, please forward them to the AICPA Peer Review Division.

Explanation of References:

FAS Statement of Financial Accounting Standards
GASB Codification of Governmental Accounting and Financial Reporting Standards (as of June 30, 1994)
HCS AICPA Audit and Accounting Guide Audits of Providers of Health Care Services (as of May 1, 1994)
SOP AICPA Statement of Position

AICPA Peer Review Program Manual       PRP § 6070
Supplemental Checklist for Review of Providers of Health Care Services Engagements

Contents

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    Investments
    Receivables
    Property and Equipment, Supplies and Other Assets
    Current Liabilities and Long-Term Obligations
    Commitments and Contingencies
    Net Assets (Equity or Fund Balance)
    Revenue, Expenses, Gains, and Losses
    Reporting Entity and Related Organizations
    Continuing Care Retirement Communities

---

1 Refer to the AICPA Audit and Accounting Guide, Audits of Providers of Health Care Services.
2 Reviewers should refer to the instructions for the applicable section included in the Not-for-Profit Audit Engagement Checklist or the appropriate section of the compilation or review checklist.
I. REPORT AND FINANCIAL STATEMENTS

Financial Statements and Notes

Are the presentations appropriate and disclosures adequate regarding:

- Donor-imposed restrictions on investment principal and income? (HCS, ch. 6, par. 6.17) HC101
- Involvement in any investment pools? (HCS, ch. 6, par. 6.17) HC102
- Management's policy for providing charity care and the level of charity care provided? (HCS, ch. 2, par. 2.04) HC103
- Significant contractual arrangements with third party payors? (HCS, ch. 7, par. 7.22) HC104
- Pending claims, appeals or settlements regarding third-party payors? (HCS, ch. 7, par. 7.22) HC105
- Contracts with physicians, specialists, related parties, and others? (HCS, ch. 9, par. 9.35) HC106
- The nature of any relationship between the entity and lessors, bailors or other owners of property? (HCS, ch. 8, par. 8.12) HC107
- The receipt of donated property and equipment, both restricted and unrestricted? (HCS, ch. 8, par. 8.15) HC108
- Separately reporting property and equipment not used for health care operations? (HCS, ch. 8, par. 8.15) HC109
- The tax-exempt status, if applicable, and tax contingencies? (HCS, ch. 9, par. 9.35) HC110
- Liabilities relating to refundable fee arrangements? (HCS, ch. 9, par. 9.35) HC111
- Medical malpractice insurance? (HCS, ch. 10, par. 10.51) HC112
- The method of revenue recognition and recording unrestricted and restricted donations and investment income of both general and restricted funds? (HCS, ch. 12, par. 12.13) HC113
- The identification and explanation of the estimated amounts that are payable or receivable regarding contractual adjustments and third-party settlements? (HCS, ch. 12, par. 12.13) HC114
- Separately disclosing expenses incurred in soliciting contributions? (HCS, ch. 12, par. 12.16) HC115
- Related entities, investees and affiliates? (HCS, ch. 13, par. 13.09) HC116
- The basis for accruing health care costs and significant business and contractual arrangements with hospitals, physicians, and other associated entities? (SOP 89-5, par. 32) HC117
- Classification of revenue, expenses, and gains and losses? (HCS, ch. 12, par. 12.02) HC118

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
Unconditional promises to give, collectible within one year, and in one to five years, in more than five years, and the amount of the allowance for uncollectible contributions receivable? (FAS No. 116, par. 24)  

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<tr>
<td>HC119</td>
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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, completing a new building and raising matching gifts by a specified date? (FAS No. 116, par. 25)  

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<td>HC120</td>
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Unpaid debt that has been fully defeased? ((Only applicable to governmental health care entities) (GASB Sec. D20.111-.114))  

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3 If FAS No. 116 was applicable to this engagement 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 those 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 those organizations, the effective date is December 15, 1995. Early application is encouraged.
II. WORKING PAPER AREAS—PROVIDERS OF HEALTH CARE SERVICES

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□ Cash and Cash Equivalents

□ Investments

Did the auditor review board, investment committee or other committee minutes for evidence of donated securities? (HCS, ch. 6, par. 6.17)

| HC301 |       |     |    |       |

Do the working papers indicate that donated securities were properly reported at fair market value at the date of the gift and in the proper fund? (HCS, ch. 6, par. 6.17)

| HC302 |       |     |    |       |

Did the auditor review documentation related to donor restrictions and that compliance was tested for such restrictions? (HCS, ch. 6, par. 6.17)

| HC303 |       |     |    |       |

Do the working papers indicate that restricted funds are pooled only in accordance with donor, grantor, or other restrictions? (HCS, ch. 6, par. 6.17)

| HC304 |       |     |    |       |

Did the auditor verify that income and gains or losses from investment pools are distributed equitably among the participating funds? (HCS, ch. 6, par. 6.17)

| HC305 |       |     |    |       |

□ Receivables

Did the auditor verify that the entity has a policy to distinguish bad-debt expense from charity care? (HCS, ch. 7, par. 7.02)

| HC306 |       |     |    |       |

If the entity was reimbursed under the Medicare case payment system, did the auditor verify that regulatory denials and the costs of providing services for patient stays longer than permitted, were appropriately considered in determining contractual allowances and third-party settlements? (HCS, ch. 7, par. 7.05)

| HC307 |       |     |    |       |

If third-party programs have provisions limiting the amounts of reimbursable costs, did the auditor consider their effect on third-party accruals? (HCS, ch. 7, par. 7.22)

| HC308 |       |     |    |       |

Did the auditor verify that there is appropriate information and analysis to support each significant third-party payment settlement, and collectibility? (HCS, ch. 7, par. 7.22)

| HC309 |       |     |    |       |

Was a determination made with respect to uncollectible accounts, including reviews of such accounts and appropriate aging by major payer? (HCS, ch. 7, par. 7.22)

| HC310 |       |     |    |       |

Did the auditor obtain a general understanding of the various contractual arrangements with third-party payors? (HCS, ch. 7, par. 7.22)

| HC311 |       |     |    |       |

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* Some questions in this section may not apply to compilation and review engagements. Care should be taken to tailor the questions to fit the level of service being reviewed.

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers should be handled in either of the following ways: (1) discussed on an MFC with the MFC form number noted in the REF. column, or (2) discussed on the pages provided at the end of this checklist if no MFC was generated.
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)

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Did the auditor verify that receivables reported in the financial statements are at net realizable value? (HCS, ch. 7, par. 7.22)

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Are interfund receivables properly reported at net realizable amounts? (HCS, ch. 7, par. 7.22)

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Did the auditor review supporting documentation authorizing interfund loans, and assess collectibility? (HCS, Ch. 7, par. 7.22)

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If the entity was reimbursed under capitation arrangements, did the auditor verify that patient accounts receivable relating to services rendered under these agreements have been eliminated?

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### 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)

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For purposes of cost reimbursement and revenue recognition, did the auditor verify that the entity received appropriate health care planning agency or other regulatory agency approvals, if required, for property and equipment additions? (HCS, ch. 8, par. 8.15)

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### 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)

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</tbody>
</table>

If the provider of prepaid health care services is obligated to render services to specific members beyond the premium period due to provisions in the contract or regulatory requirements, did the auditor verify that those costs were accrued currently? (SOP 89-5, par. 30)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</table>

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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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</table>

Are all liabilities related to contracts with physicians, specialists, related parties and others properly reported? (HCS, ch. 9, par. 9.35)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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</table>

Did the auditor perform any procedures to verify that third-party advances are properly reported? (HCS, ch. 9, par. 9.35)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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</table>

Were deferred debits or credits that relate to third-party timing differences properly reported? (HCS, ch. 9, par. 9.35)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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</table>
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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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<tbody>
<tr>
<td>HC325</td>
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</table>

Did the auditor verify that the not-for-profit entity obtained a qualifying income tax exemption from the government authority? (HCS, ch. 9, par. 9.35)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<th>REF.</th>
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<tbody>
<tr>
<td>HC326</td>
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</table>

Was a determination made regarding possible transactions that would affect both the entity’s tax status and tax liability? (HCS, ch. 9, par. 9.35)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>HC327</td>
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</table>

### 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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<tbody>
<tr>
<td>HC328</td>
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</table>

Did the auditor obtain an understanding on the accuracy and completeness of the incident reporting and monitoring system? (HCS, ch. 10, par. 10.32)

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<thead>
<tr>
<th>QUES.</th>
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<tbody>
<tr>
<td>HC329</td>
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</table>

Did the auditor send letters of inquiry to malpractice insurance carriers and legal counsel? (HCS, ch. 10, par. 10.51)

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<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<tbody>
<tr>
<td>HC330</td>
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</table>

Did the auditor review estimates and historical loss experience? (HCS, ch. 10, par. 10.51)

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<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
<th>YES</th>
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<td>HC331</td>
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</table>

### 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)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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<tr>
<td>HC332</td>
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</table>

Did the auditor verify that each fund is in balance? (HCS, ch. 11, par. 11.03)

<table>
<thead>
<tr>
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<tr>
<td>HC333</td>
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</table>

### Revenue, Expenses, Gains, and Losses

Was current period revenue and expenses compared with prior period and budgets, and were any unusual variances investigated? (HCS, ch. 12, par. 12.17)

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<thead>
<tr>
<th>QUES.</th>
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<tr>
<td>HC334</td>
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</table>

Did the auditor perform procedures to verify the accuracy and completeness of medical records information for DRG assignment? (HCS, ch. 12, par. 12.17)

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<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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<tr>
<td>HC335</td>
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</table>

Was the accuracy of revenue compared to the results of the peer review organization’s DRG validation audits, PRO reviews of the appropriateness of admissions and related denials, and PRO reviews of the medical necessity of outlier services, including days and costs? (HCS, ch. 12, par. 12.17)

<table>
<thead>
<tr>
<th>QUES.</th>
<th>N/A</th>
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<td>REF.</td>
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<tr>
<td>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)</td>
<td>HC337</td>
<td></td>
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</tr>
<tr>
<td>Did the auditor give adequate consideration to revenue cutoff? (HCS, ch. 12, par. 12.17)</td>
<td>HC338</td>
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</tr>
<tr>
<td>Did the auditor verify that unrestricted gifts, donations, and bequests were properly reported? (HCS, ch. 12, par. 12.17)</td>
<td>HC339</td>
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</tr>
<tr>
<td>Did the auditor review donor correspondence (and/or board meeting minutes) to determine the presence or absence of donor restrictions? (HCS, ch. 5, par. 5.07)</td>
<td>HC340</td>
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</tbody>
</table>

**Reporting Entity and Related Organizations**

Did the auditor perform procedures to ensure that the reporting entity is appropriately accounting for transactions with investees, affiliates, and other related entities? (HCS, ch. 13, par. 13.09) HC341

**Continuing Care Retirement Communities**

Did the auditor verify that the estimated amount of advance fees expected to be refunded to current residents under the terms of the contracts was accounted for as a liability? (SOP 90-8, par. 22) HC342

Did the auditor verify that the fees that will be paid to current residents or their designees, only to the extent of the proceeds of reoccupancy of a contract holder’s unit, are accounted for as deferred revenue? (SOP 90-8, par. 31) HC343

Were nonrefundable advance fees accounted for as deferred revenue? (SOP, 90-8, par. 43) HC344

Was an annual calculation made regarding the obligation to provide future services and use of facilities to current residents? (SOP 90-8, par. 53) HC345

Did the auditor verify that the costs of acquiring initial continuing-care contracts that are expected to be recovered from future contract revenues were capitalized? (SOP 90-8, par. 63) HC346

[The next page is 6081.]
PRP Section 6080

Supplemental Checklist for Review of Audits of HUD Engagements

Instructions for Use of the Supplemental Checklist for Review of Audits of HUD Engagements

This supplemental checklist was developed for use by reviewers of HUD Programs performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs unless only a HUD audit is performed. 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 15, 1993) is effective for audits of fiscal years ending on or after September 30, 1993. The instructions to sections I and III of the audit checklist should be used when completing the applicable sections of this supplement. Questions regarding these instructions or any other materials should be directed to the AICPA Peer Review Division at (201) 938-3030.

The questions in this checklist emphasize reporting matters and general procedures ordinarily performed by an independent auditor in the audit of financial statements of HUD Programs. All “No” answers must be thoroughly explained in Section 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 audit 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 organization-wide audit required by Circular A-133. Nonprofit institutions having outstanding HUD direct, guaranteed, or insured loans that were made/guaranteed/insured prior to the effective date of the regulation are also required to have audits performed in accordance with the HUD Audit Guide.

The GAO Yellow Book 1994 revision supersedes the 1988 edition, and is effective for financial audits of periods ending on or after January 1, 1995, and for performance audits beginning on or after January 1, 1995. Earlier application is permissible.
Explaination of References:

<table>
<thead>
<tr>
<th>Code</th>
<th>Reference Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AU</td>
<td>AICPA Professional Standards Volume 1</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GAAS</td>
<td>Generally Accepted Auditing Standards</td>
</tr>
<tr>
<td>GAO</td>
<td>Government Auditing Standards (1988 Revision), United States General Accounting Office</td>
</tr>
<tr>
<td>GNMA</td>
<td>Government National Mortgage Association</td>
</tr>
<tr>
<td>OMB</td>
<td>The Office of Management and Budget</td>
</tr>
</tbody>
</table>

PRP § 6080

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**Section**

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| 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 | 6085 |
| C. Chapter 5, Insured Development Cost Certification Audit Guidance—Reporting Requirements | 6086 |
| D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities—Reporting Requirements | 6086 |
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(1) Reviewers should refer to the instructions for the applicable section included in the *Checklist for Review of Audit Engagements.*

AICPA Peer Review Program Manual  
PRP § 6080
General

The auditor's report on compliance should include an opinion on the auditee's compliance with specific requirements applicable to each of its major programs. The term "major programs" as defined by the Consolidated Audit Guide for Audits of HUD Programs means an individual assistance program or a group of programs in a category of Federal Financial Assistance which exceeds $300,000 during the applicable year. A project which has an outstanding HUD-insured, guaranteed or direct loan balance exceeding $300,000 as of the reporting date shall be considered a major program. A mortgagee or loan correspondent which originates and/or services an aggregate of FHA—insured loans exceeding $300,000 during the period under audit is considered a major program. In addition, a Government National Mortgage Association (GNMA) Issuer with a remaining principal balance exceeding $300,000 as of the reporting date is considered a major program.

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?
  H102

- Identification of the Audit Partner?
  H103

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)

H104

For some engagements more than one chapter may apply, in particular Chapters 3 and 4, with results reported in a single audit report.

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 Data? (HUD, Ch. 2, Example A)

H105

Combined report on Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)

H106

Opinion on compliance with specific requirements applicable to each major HUD program? (HUD, Ch. 2, Example C)

H107

Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)

H108

A report on Compliance with Specific Requirements applicable to Affirmative Fair Housing? (HUD, Ch. 2, Example E)

H109

* 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.
Report on Compliance with Laws and Regulations, based upon an audit of the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)

**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 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances.

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.

Did the auditor’s report on Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances, include the following reports, and were the reports worded in accordance with professional standards (HUD Ch. 4, pars. 4-4 A and 4 B and AU Sec. 801):

Report on Audited Financial Statements and Supplemental Data? (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 each major HUD programs? (HUD, Ch. 2, Example C)

A Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)

A report on 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 of the financial statements performed in accordance with Government Auditing Standards? (HUD, Ch. 2, par. 2-1)

<table>
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<tr>
<th>QUES.</th>
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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)  
H119  N/A  YES  NO  REF.

The Auditor’s Comments on Audit Resolution Matters relating to the HUD Programs? (HUD, Ch. 2, Example G)  
H120  N/A  YES  NO  REF.

☐ 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, 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 Mortgagors Certificate of Actual Cost (Form HUD 92330)?  
H121  N/A  YES  NO  REF.

A Report on the Consideration of the Mortgagor’s Internal Control Structure?  
H122  N/A  YES  NO  REF.

A Report on the Mortgagor’s Compliance with Specific Requirements?  
H123  N/A  YES  NO  REF.

☐ D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities—  
Reporting Requirements

Did the auditor’s report on GNMA issuers of mortgage-backed securities include the following reports, worded in accordance with professional standards (HUD Ch. 6, par. 6-4 and AU Sec. 801):

Report on Audited Financial Statements and Supplemental Data? (HUD, Ch. 2, Example A)  
H124  N/A  YES  NO  REF.

Combined report on the Internal Control Structure as it relates to both financial reporting and administering HUD-assisted programs? (HUD, Ch. 2, Example B)  
H125  N/A  YES  NO  REF.

Opinion on compliance with specific requirements applicable to each major HUD programs? (HUD, Ch. 2, Example C)  
H126  N/A  YES  NO  REF.

A Report on Compliance with Specific Requirements applicable to nonmajor HUD program transactions? (HUD, Ch. 2, Example D)  
H127  N/A  YES  NO  REF.

☐ E. Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees  
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, worded in accordance with professional standards (HUD, Ch. 7, par. 7-4 and AU Sec. 801):

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<th>Ques.</th>
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A Report on the basic financial statements?
A Report on the 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 each major HUD-assisted programs or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted program transactions?

F. Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance—Reporting Requirements

Did the auditor’s report for Title I lenders and loan correspondents include the following reports, worded in accordance with professional standards (HUD, Ch. 8, par 8-4 and AU Sec. 801):

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<th>Ques.</th>
<th>N/A</th>
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A Report on the basic financial statements?
A Report on the Internal Control Structure and Compliance with specific requirements that have a direct and material effect on HUD-insured loans?
An opinion on the Compliance with Specific Requirements applicable to each major HUD-assisted programs, or a Report on Compliance with Specific Requirements applicable to nonmajor HUD-assisted program transactions?
II. WORKING PAPER AREAS—HUD ENGAGEMENTS

General *
Does the engagement letter required by HUD specify the following:**

- that the audit was to be performed in accordance with GAAS, the 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 or their 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 because of the above, did the auditor resign 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)
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 he/she document the reasons for this omission?

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* 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.

PRP § 6080
Reference to a separate letter, if applicable, describing immaterial differences of noncompliance? (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 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 illegal 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)

Program Specific Requirements

The specific requirements for the following programs are contained in separate chapters of the HUD Audit Guide IG 2000.04 Rev-1:

• Chapter 3, Section 8 Audit Guidance

• Chapter 4, Insured and Coinsured Multi-family Projects, HUD-Held Mortgages, Section 236 Subsidized Projects, Section 202 Direct Loans, and Section 811 Capital Advances Audit Guidance, and Sample Financial Statements

• Chapter 5, Insured Development Cost Certification Audit Guidance

• Chapter 6, GNMA Issuers of Mortgage-Backed Securities Audit Guidance

• Chapter 7, HUD-Approved Title II Nonsupervised Mortgagees and Loan Correspondents Audit Guidance

• Chapter 8, HUD-Approved Title I Nonsupervised Lenders and Loan Correspondents Audit Guidance

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**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 have been performed, and that appropriate conclusions have been drawn? (The auditor should justify why he/she did not test a particular compliance requirement)

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**A. Chapter 3, Section 8 Audit Guidance—Working Paper Areas**

Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

- Affirmative Fair Housing? H219
- Federal Financial Reports? H220
- Management, Maintenance and Replacement Reserve of Capital Items? H221
- Application, Eligibility, and Reexamination of Tenants? H222
- Security Deposits? H223

□

**B. Chapter 4, Insured and Coinsured Multifamily Projects, HUD-Held Mortgages, Section 202 Direct Loans, Section 811 Capital Advances, Section 236 Subsidized Projects, Audit Guidance and Sample Financial Statements—Working Paper Areas**

Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

- Affirmative Fair Housing? H224
- Federal Financial Reports? H225
- Mortgage Status? H226
- Replacement Reserve? H227
- Residual Receipts? H228
- Security Deposits? H229
- Cash Receipts and Disbursements? H230
- Distributions to Owners? H231
- Tenant Application, Eligibility, and Recertification? H232
- Management Functions? H233
C. Chapter 5, Insured Development Cost Certification Audit Guidance—Working Paper Areas

Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

- Federal Financial Reports?
- Accounting System?
- Cut-Off Timing and Eligibility of Costs?
- Identity of Interest?

D. Chapter 6, GNMA Issuers of Mortgage-Backed Securities Audit Guidance—Working Paper Areas

Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

- Federal Financial Reports?
- 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 specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

- Federal Financial and Activity Reports?
- Quality Control Plan?
- Branch Office Operations?
- Loan Origination?
- Loan Settlement?
- Loan Servicing?
- Escrow Accounts?
- Section 235 Assistance Payments?
- Kickbacks?
- Mortgage Approval Requirements?
Have specific compliance requirements been tested in accordance with the procedures in the HUD Consolidated Audit Guide, or have alternative procedures been justified:

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<th>Question</th>
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<td>Loan Disbursement?</td>
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<td>Loan Servicing?</td>
<td>H259</td>
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<tr>
<td>Eligible Fees and Charges?</td>
<td>H260</td>
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<tr>
<td>Financial Approval Requirements?</td>
<td>H261</td>
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<tr>
<td>Did the auditor address the required supplemental data listed in the HUD Audit Guide, Ch. 4, par. 4-3B; Ch. 6, par. 6-4; Ch. 7, par. 7-4 (analysis of net worth); and Ch. 8, par. 8-4 (analysis of net worth)?</td>
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<td>Has the statement of cash flows been presented using the direct method (HB 4370.2, pars. 3-4 and HB 4370.6, pars. 2-6)?</td>
<td>H263</td>
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☐
PRP Section 7000

SUMMARIES OF ON-SITE PEER REVIEW ENGAGEMENT FINDINGS

General

The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. (See Appendix B to the Standards.)

"No" answers on engagement checklists should be summarized to facilitate the above consideration. (See step III.8 of the Team Captain's Checklist—On-Site Peer Reviews.) The format of summarization is left to the discretion of the reviewer.

The following summaries have been developed and are included in this section of the manual.

a. Summary Compilation Engagement Checklist (PRP Section 7100)

b. Summary Review Engagement Checklist (PRP Section 7200)

c. Summary Audit Engagement Checklist (PRP Section 7300)

The format of these summary checklists is consistent with that of the engagement checklists contained in section 5000 of this 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.

Reviewers may use these summary checklists or develop their own summaries.

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<tr>
<td>7200</td>
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<tr>
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</table>
**Summary Compilation Engagement Checklist**

**Summary Checklist for Reviews of Compilation Engagements**

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<tr>
<td>IV. Appendix A—Questions for Use on Compilation Engagements That Omit Substantially All Disclosures</td>
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# I. REPORT AND FINANCIAL STATEMENTS

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## 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 it contain the elements 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 supplementary 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 the 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?

Do the financial statements appear to be free of material error?

Is the accounting appropriate and are the 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?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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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 properly accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions properly accounted for and disclosed?

With respect to contingencies and commitments:

Are loss contingencies accrued and/or disclosed 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?

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, other than pensions, adequately disclosed?

Have postemployment and postretirement benefits, other than pensions, been properly accounted for?

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?

Are adjustments of financial statements for prior periods appropriate?

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

Is the accounting appropriate and are the disclosures adequate regarding:

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

- Valuation allowances?

- Restricted cash, including compensating balances?

- Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity?

- Accounts and Notes Receivable:
  - Loans and related origination fees?

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
Effect of interest rates that do not reflect market rates?
Effect of 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 adoption of the statement), are the recorded investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor's income recognition policy disclosed?
Inventories?
Investments accounted for under the equity method?
Property and equipment, including accounting for assets of discontinued operations, and capitalized interest?
Sales-type, direct financing, leveraged, 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 may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?
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)?
Treasury stock?
Stock option and stock purchase plans?

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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?

Is the accounting appropriate and are the disclosures adequate regarding:

- Method of income recognition, where appropriate; for example: long-term contracts and real estate transactions?
- Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses?
- Application of the equity method?
- Research and development costs?
- Computer software costs?
- Capitalization of interest costs?
- Discount or premium on notes receivable or payable?
- Depreciation?
- Compensatory stock issuance plans?
- 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?

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 pretax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items needs to be disclosed.)
Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?
Discontinued operations?
Extraordinary items?
Unusual or infrequent items, but not both?

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 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?
Are the components of the cash flow statement shown at “gross” and not “net” amounts?
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 AICPA 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?

If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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?

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 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 of obvious material errors?

If the accountant had become 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 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?

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?

QUEST.  | Engagement Code  | MFC Ref.*
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C212    |                  |             |
C213    |                  |             |
C214    |                  |             |

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual  PRP § 7100
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 effects appropriately considered? If the accountant was not independent, was the report appropriately modified?

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?

Were the fees (billed/unbilled) for the prior years’ services paid prior to issuance of the current year’s report?

Assigning Personnel to Engagements (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?

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 issues warranted it?

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances were the firm’s conclusions reasonable and 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 all forms, checklists, or questionnaires, if any, required by firm policy (not required by SSARS) for the following areas adequately completed and modified, where appropriate, for the engagement:

Planning checklist?

Work programs?

Financial statement disclosures?

Working paper preparation and reading of financial statements?

---

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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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 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 familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

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* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual   PRP § 7100
### IV. Appendix A—Questions for Use on compilation Engagements That Omit Substantially All Disclosures

#### Accountants’ Reports

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**Is the report dated in conformity with the requirements of professional standards?**

**Does the report adequately disclose all required matters and does it contain the elements 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 supplementary 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 the financial statements that have been compiled include a reference to the accountant’s report?**

#### Financial Statements

**General**

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**Are the financial statements suitably titled?**

**Do the financial statements appear to be free of material error?**

#### Balance Sheet

**Is the presentation appropriate regarding:**

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?

  | C134 |                |           |

- Valuation allowances?

  | C135 |                |           |

- Effect of troubled debt restructurings?

  | C140 |                |           |

- Accounting for operating and capital leases?

  | C146 |                |           |

- Other assets, including deferred charges?

  | C147 |                |           |

- Maturities on notes payable and other debt?

  | C152 |                |           |

- Other liabilities, including compensation for future absences?

  | C159 |                |           |

- Treasury stock?

  | C161 |                |           |

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.*

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### Income Statement

Are the important components of the income statement separately stated?

- Is the accounting appropriate regarding:
  - Method of income recognition, for example: long-term contracts and real estate transactions?
  - 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?
  - Application of the equity method?
  - Depreciation?
  - Deferred compensation agreements?
  - Accounting for income taxes?
  - Discontinued operations?
  - Extraordinary items?
  - Unusual or infrequent items, but not both?

### 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 the components of the cash flow statement shown at “gross” and not “net” amounts?

### Other

- If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format and statements consistent with the guide?
PRP Section 7200

Summary Review Engagement Checklist

Summary Checklist for Reviews of Review Engagements

Contents

Section                                                                 Page
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II. General Review Procedures ........................................................................ 7207
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     Assigning Personnel to Engagements .......................................................... 7209
     Consultation .................................................................................................. 7209
     Supervision ................................................................................................... 7209
     Advancement .................................................................................................. 7210
     Acceptance and Continuance of Clients .................................................... 7210
     Professional Development .......................................................................... 7210
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 it contain the elements required by professional standards including appropriate language describing any modifications 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 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 Footnotes

General

Are the financial statements suitably titled?

Is the accounting appropriate and are the 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 economic dependence on one or more major customers?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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Are foreign currency transactions and translation of financial statements denominated in a foreign currency properly accounted for and disclosed?

Are foreign operations and export sales adequately disclosed?

Are nonmonetary transactions properly accounted for and disclosed?

With respect to contingencies and commitments:
  Are loss contingencies accrued and/or adequately disclosed?
  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, other than pensions, adequately disclosed?

Have postemployment and postretirement benefits, other than pensions, been properly accounted for?

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 futures contracts?

Are adjustments of financial statements for prior periods appropriate?

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

Is the accounting appropriate and are the disclosures adequate regarding:
  Segregation of assets and liabilities, if applicable, into current and noncurrent classifications?
  Valuation allowances?
  Restricted cash, including compensating balances?
  Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholder's equity?
  Accounts and Notes Receivable:
   Loans and related origination fees?
   Effect of interest rates that do not reflect market rates?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
### Effects of troubled debt restructurings?

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are the recorded 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, leveraged, 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 may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed to with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law?

### 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 lessors?

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?

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PRP § 7200

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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?
Is the accounting appropriate and are the disclosures adequate regarding:
Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions?
Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses?
Application of the equity method?
Research and development costs?
Computer software costs?
Capitalization of interest costs?
Discount or premium on notes receivable or payable?
Depreciation?
Compensatory stock issuance plans?
Deferred compensation agreements?
Sales transactions in which the buyer has a right to return the product?
Product financing arrangements?
Operating leases and rent expenses of lessees?

Income taxes:
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 nature of significant reconciling items need to be disclosed.)
Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?
Discontinued operations?

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Extraordinary items?
Unusual or infrequent items, but not both?

**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 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?
Are the components of the cash flow statement shown at “gross” and not “net” amounts?
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 AICPA 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?
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 requires 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?

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?
- 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?

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AICPA Peer Review Program Manual

PRP § 7200
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?

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?

If any circumstances were encountered by the accountant that precluded the accountant from performing inquiries and analytical procedures as deemed necessary or if 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?

Did the accountant consider whether these same circumstances would also preclude him/her from issuing a compilation report?

Do such determinations by the accountant appear to be proper?

Have all questions and/or exceptions 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?

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PRP § 7200

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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 effects appropriately considered?

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?

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?

Does it appear the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances, were the firm’s conclusions reasonable and 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 owner (or manager) approve the overall engagement plan (including the engagement program) as the final planning step and convey approval or modifications to the engagement staff?

Does it appear that involvement by the owner and manager were both adequate and appropriately timed to provide for any planning and supervision as the job progressed?

---

*A If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual PRP § 7200
Summaries of On-Site Peer Review Engagement Findings

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?

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 familiar with the applicable professional pronouncements (FASB, AICPA, etc.)?

---

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

PRP § 7200

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### PRP Section 7300

#### Summary Audit Engagement Checklist

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

Auditor’s 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 an appropriate reference to the predecessor auditor in the introductory paragraph?

If supplementary information accompanies the basic financial statements, does the auditor describe in the report the degree of responsibility, if any, the auditor is taking?

For special reports, have the professional standards been complied with regarding:

- Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?

- Specified elements, accounts or items of a financial statement?

- Compliance with aspects of agreements or regulatory requirements related to audited financial statements?

- Financial presentations to comply with 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?

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
### Summary Audit Engagement Checklist

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual

PRP § 7300
## Summaries of On-Site Peer Review Engagement Findings

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<tr>
<th>QUES.</th>
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<td>Is the required information on defined benefit pension plans adequately disclosed?</td>
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<td>Are all other pension plans adequately disclosed?</td>
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<tr>
<td>Is the required information on defined benefit postretirement plans, other than pensions, adequately disclosed?</td>
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<tr>
<td>Has postemployment and postretirement benefits, other than pensions, been properly accounted for and disclosed?</td>
<td>A132</td>
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<td>If the entity is or has been a &quot;development stage enterprise,&quot; are adequate disclosures made?</td>
<td>A133</td>
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<td>Do the financial statements, where required, include appropriate presentations of: Segment information?</td>
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<tr>
<td>Are adjustments of financial statements for prior periods appropriate?</td>
<td>A136</td>
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<tr>
<td>If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated?</td>
<td>A137</td>
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</table>

### Balance Sheet *

Is the accounting appropriate and are the disclosures adequate regarding:

- Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? A138
- Valuation allowances? A139
- Restricted cash, including compensating balances? A140
- Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders' equity? A141
- Accounts and Notes Receivable:
  - Loans and related origination fees? A142
  - Effect of interest rates that do not reflect market rates? A143
  - Effect of troubled debt restructurings? A144
  - Other receivables? A145

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are the recorded 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 under the equity method?

Property and equipment, including accounting for assets of discontinued operations, investment credit, and capitalized interest?

Sales-type, direct financing, leveraged, 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 may be offset in the balance sheet only when all of the following conditions are met: (1) each party owes the other determinable amounts, (2) the reporting party has the right to set off the amount owed with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? *

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?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
Other liabilities and deferred credits, including classification of deferred tax liabilities, employees' compensation for future absences, special termination benefits to employees, and deferred revenue? A163

Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)? A164

Treasury stock? A165

Stock option and stock purchase plans? A166

Stock subscriptions receivable? A167

Retained earnings, including appropriations thereof and restrictions on dividends? A168

Changes in stockholders' equity? A169

Redemption requirements on capital stock for the next five years? A170

**Income Statement**

Are the important components of the income statement separately disclosed? A171

Is the accounting appropriate and are the disclosures adequate regarding:

- Method of income recognition, where appropriate, for example: long-term contracts and real estate transactions? A172
- Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments? A173
- Application of the equity method? * A174
- Research and development costs? A175
- Computer software costs? A176
- Capitalization of interest costs? A177
- Discount or premium on notes receivable or payable? A178
- Depreciation? A179
- Compensatory stock issuance plans? A180
- Deferred compensation agreements? A181
- Sales transactions in which the buyer has a right to return the product? A182
- Product financing arrangements? A183
- Operating leases and rent expense of lessees? A184

Income taxes:

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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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 pretax income or loss from continuing operations? (If a nonpublic company, only the nature of significant reconciling items needs to be disclosed.)

Amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes?

Discontinued operations?

Extraordinary items?

Unusual or infrequent items, but not both?

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 equivalents, and did 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?

---

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

---

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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 and is the enterprise's policy for determining which items are treated as cash equivalents disclosed?

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Do the financial statements avoid reporting cash flow per share amounts?

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Are the components of the cash flow statement shown at "gross" and not "net" amounts?

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</table>

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?

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**Other**

If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements and disclosures consistent with the guide?

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**Report and Disclosure Considerations Unique to State or Local Governmental Entities**

**Auditor's Reports**

Does (do) 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?

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**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?

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- Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds?

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- 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)?

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- Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Similar Trust Funds?

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- Combined Statement of Cash Flows—All Proprietary Fund Types and Nonexpendable Trust Funds?

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Do the combined financial statements contain all funds and account groups that comprise the reporting entity, as defined in the notes?

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If totals by account are presented in the General Purpose Financial Statements, are the totals noted as memorandum only?

| G109  |                 |           |
| G110  |                 |           |

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?

| G111  |                 |           |
| G112  |                 |           |

Do interfund receivables equal interfund payables or are the differences explained in the notes?

| G113  |                 |           |
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Are interfund operating transfers reported in the “Other Financing Sources” section in the Statement of Revenues and Expenditures and residual equity transfers reported as additions or deductions from beginning fund balances?

| G115  |                 |           |
| G116  |                 |           |

Are special assessment receivables offset by deferred revenue when appropriate?

| G117  |                 |           |

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?

| G118  |                 |           |
| G119  |                 |           |

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?

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 modified accrual basis?
- Do the statements disclose the significant revenues and expenditures?

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Are other long-term liabilities (accrued vacation, leases, workers' compensation, etc.) separately disclosed?

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Does the ending fund balance of the debt service fund agree with Amount Available for Debt Service in the General Long-Term Debt Account Group?

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Are component units properly reported as blended in or discrete in accordance with GASB No. 14?

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Have all discretely presented component units been reported in a separate column or columns to the right of all funds and account groups of the primary government?

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Does the asset side of the balance sheet not include the term "Reserves"?

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Are governmental funds long-term loans receivable offset by a reserve of fund balance?

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Are amounts of any excesses of expenditures over appropriations at the legal level of budgetary control in individual funds disclosed?

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Questions G148 through G175 should be answered only if the combining or individual fund financial statements are presented as primary financial statements. The reviewer should evaluate if the fund statements were complete in presentation for each fund or account group.

Are the following financial statements presented, if necessary:

**General Fund:**

- Balance sheet?

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- Statement of revenues, expenditures and changes in fund balances?

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- Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

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**Special Revenue Funds:**

- Balance sheet?

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- Statement of revenues, expenditures and changes in fund balances?

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- Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

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**Debt Service Funds:**

- Balance sheet?

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- Statement of revenues, expenditures and changes in fund balances?

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- Statement of revenues, expenditures and changes in fund balances—budget vs. actual?

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
**Summaries of On-Site Peer Review Engagement Findings**

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**Capital Project Funds:**
- Balance sheet? G157  
- Statement of revenues, expenditures and changes in fund balances? G158  
- Statement of revenues, expenditures and changes in fund balances—budget vs. actual? G159

**Enterprise Fund:**
- Balance sheet? G160  
- Statement of revenues, expenses and changes in retained earnings? G161  
- Statement of cash flows? G162

**Internal Service Funds:**
- Balance sheet? G163  
- Statement of revenues, expenses and changes in retained earnings? G164  
- Statement of cash flows? G165

**Nonexpendable and Pension Trust Funds:**
- Balance sheet? G166  
- Statement of revenues, expenses and changes in fund balances? G167  
- Statement of cash flows? G168

**Agency Funds:**
- Balance sheet? G169  
- Combining statement of changes in assets and liabilities, if appropriate? G170

**Expendable Trust Funds:**
- Balance sheet? G171  
- Statement of revenues, expenditures and changes in fund balances? G172

**Internal Service Funds:**
- Statement of revenues, expenditures and changes in fund balances—budget vs. actual? G173  
- If required, is a statement of changes in general fixed assets presented? G174  
- If required, is a statement of changes in general long-term debt presented?* G175

---

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

**Other Note Disclosures**

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**PRP § 7300**

Copyright © 1995, American Institute of Certified Public Accountants, Inc.
Are the presentations appropriate and 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?
  
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- 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?
  
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- Basis of accounting applied to each fund?
  
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- Revenue recognition policies, including:
  
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- Definition of modified accrual basis as to governmental fund types and of accrual basis as to proprietary fund types?
  
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- Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?
  
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- Accounting for fixed assets concerning:
  
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- Classification in proprietary funds or general fixed assets account group?
  
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- Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?
  
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- Depreciation methods and lives, including whether depreciation is reported on general fixed assets?
  
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- Capitalization of interest costs during construction?
  
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- Method of accounting and reporting for encumbrances?
  
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- Claims and judgments?
  
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- Interfund eliminations not apparent?
  
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</table>

- 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.)
  
<table>
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- Do overall disclosures appear to adequately reflect circumstances and materiality thresholds?
  
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- Significant accounting policies?
  
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- Basis on which each budget is prepared, including:
  
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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
### Pooled Cash and Investment Accounts

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 after 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?
- Nature of any restrictions on assets related to debt?*
- Demand bonds?

### 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

---

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

---

**AICPA Peer Review Program Manual**

**PRP § 7300**
Are the nature and amount of inconsistencies in the financial statements caused by transactions between component units having different year ends properly disclosed?

G231

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?

G232

If the statement of cash flows is presented, does it report cash provided by investing, noncapital financing, capital and related financing and operating activities?

G233

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

PRP § 7300
**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:

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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?

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 and the appropriate oversight body?

If appropriate, was the scope section of the reports properly modified to disclose that an applicable government auditing standard was not followed, the reasons therefore, and the known effect of not following the standard on the audit results?

When appropriate, did the auditor issue a separate report on fraud, abuse, or illegal acts, 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 communication of those nonreportable conditions in the internal control structure not included in the required reports?

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.*

AICPA Peer Review Program Manual
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 contain evidence of supervisory reviews of the work performed?

Are appropriate personnel in compliance with the "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?

Does the client letter of representations include representations to the matters set forth in SAS No. 68, paragraph 19 for GAAS and "Yellow Book" audits?

**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?

---

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

**PRP § 7300**

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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.

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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 managed in compliance with laws and regulations 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)?

**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 on each major program?

**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?

**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 issue either a qualified or adverse 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?*

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)?

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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?  

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 Administrative Requirements for Grants-In-Aid 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?  

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 he 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 nonmajor programs, to the same extent as in Question G518 above so that controls over at least 50 percent of total federal financial assistance program expenditures are tested?  

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 tests 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?  

In determining whether the entity complied with applicable laws and regulations that may have a material effect on each major federal financial  

Identify all major programs as defined in the single Audit Act of 1984?  

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
Consult appropriate sources, such as the OMB’s Compliance Supplement for Single Audits of State and Local Governments, 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?
- 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?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual

PRP § 7300
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 federal laws, regulations, or requirements?

If warranted, did the auditor communicate with the cognizant agency to avoid or minimize any disagreements or problems?

Does the client letter of representations include representations related to matters set forth in SAS No. 68, paragraph 91 for single audits?

Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time?

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?

### 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 based on donor restrictions or absence of restrictions?

- Are the three categories of net assets (permanently restricted, temporarily restricted and unrestricted) disclosed on the statement of financial position or statement of cash flows and changes in the statement of activities?

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.*
Is there a classification of revenues, expenses, gains and losses based on donor restrictions or absence of restrictions?

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, or a grant, do the financial statements or footnotes disclose the following:

- Existence and nature of affiliated or related 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 accounting appropriate and are the disclosures adequate regarding:

- Restricted cash including compensating balances?
- Terms or circumstances concerning repurchase or reverse repurchase agreements?
- Accounts and Notes Receivable:
  - Legally enforceable pledges?
  - Interfund borrowings?
- 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?

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* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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?

Is the accounting appropriate and are the disclosures adequate regarding:

- Subscription and membership income?
- Third-party reimbursements of costs for services provided?
- Investment income and gains and losses?
- 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?
- Revenue, support, and capital additions?
- Allocation of functional expenses to programs and supporting services?
- Allocation of fund raising expenses, including joint costs of informational materials and activities between fund raising and other functional expense categories?
- Grants to other organizations?
- Remittances to national organizations?
- Prior period adjustments?

**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 the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

PRP § 7300

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### Other

If the organization's tax-exempt status is in question by the IRS, is the potential impact disclosed in a footnote?

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*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
## 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?
  - A300

- Matters affecting the entity's business, such as organization and types of products and services and contractual obligations?
  - A301

- Preliminary judgment about materiality levels?
  - A302

Did the auditor:

- Make an assessment of the risk of material misstatements of the financial statements, including the risk that errors, irregularities and illegal acts may cause the financial statements to be materially misstated?*
  - A303

- Assess the risk of management misrepresentation by reviewing information obtained about risk factors and the internal control structure?
  - A304

- Design the audit to provide reasonable assurance of detecting errors and irregularities and direct-effect illegal acts that could be material to the financial statements?
  - A305

Did the auditor use analytical procedures in planning the nature, timing and extent of audit procedures?

- A306

If the auditor succeeded another auditor, did the auditor:

- Communicate with the predecessor auditor to ascertain whether there were disagreements between the predecessor auditor and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?
  - A307

- Make inquiries of the predecessor auditor on other significant matters?
  - A308

- Review the predecessor auditor's working papers or obtain satisfaction by other means?
  - A309

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?

- A310

Did the auditor:

- Obtain a sufficient understanding of the entity's internal control structure to plan the audit?
  - A311

- Document the understanding of the internal control structure?
  - A312

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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**PRP § 7300**

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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?

If the methods used by the client to process significant accounting information includes the use of a service organization, was consideration given to the control structure policies and procedures at the service organization that may affect the processing of the client’s transactions and internal control structure?

If the auditor decides to assess control risk below the maximum for financial statement assertions affected by the processing performed by the service organization, was a service auditor’s report that describes the results of the service auditor’s tests of operating effectiveness obtained; were tests performed by the auditor at the service organization, or were tests of the client’s controls over the activities of the service organization performed by the auditor?

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 the 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 when completed?

If statistical or nonstatistical sampling was used in tests of controls:

In your evaluation of the adequacy of the sample size, does it appear the firm gave appropriate consideration to the specific objective of the test of controls, tolerable rate, allowable risk of overreliance, and characteristics of the population?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual  PRP § 7300
Was the sample selected in such a way that it could be expected to be representative of the population?

If the auditor concluded that the sample results did not support the planned assessed level of control risk for an assertion, were the nature, timing and extent of planned substantive procedures re-evaluated based upon the revised consideration of the assessed level of control risk for the relevant financial statement assertions?

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 evaluation of the adequacy of the sample size, does it appear that the firm gave appropriate consideration to the specific audit objective, preliminary judgments about materiality levels, acceptable level of risk of incorrect acceptance, and characteristics of the population?

Was the sample selected in such a way that it could be expected to be representative of the population?

Were the misstatements in the sample projected to the items from which the sample was selected?

In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternative procedures could not be performed?

In evaluating whether the financial statements taken as a whole may be materially misstated, was appropriate consideration given, in the aggregate, to projected misstatements resulting from all audit sampling applications and to all known misstatements from non-sampling applications?

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 written timely and appropriate letter of representations from management and was the representation letter properly dated?

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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Summary Audit Engagement Checklist

Did the auditor obtain timely and appropriate responses from the entity’s attorneys concerning litigation, claims, and assessments?

Have all questions, exceptions, or notes been followed up and resolved?

Was appropriate consideration given to all passed adjustments and to the risk that the current period’s financial statements are materially misstated when prior-period likely misstatements are considered together with likely misstatements arising in the current period?

During the performance of the engagement, did the auditor:

Follow up on errors and irregularities in accordance with professional standards?

Consider the implications of any irregularity in relation to other aspects of the audit, including the reliability of the client’s representations?

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?

When the auditor’s procedures disclosed instances or indications of illegal acts, did the auditor:

Follow up 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 the client’s 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?

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?

If the auditor’s substantial doubt was alleviated, did the auditor consider the need for disclosure of the principal conditions and events that initially caused the auditor to believe there was substantial doubt together with mitigating factors?

If the auditor’s substantial doubt was not alleviated, did the auditor’s report include an explanatory paragraph that adequately communicates the auditor’s substantial doubt (i.e., include the terms “substantial doubt” and “going concern”)?

During the performance of the audit:

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

AICPA Peer Review Program Manual

PRP § 7300
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 was to report on the financial statements and not to provide assurance on the internal control structure, and did it include the definition of reportable conditions and the restriction on distribution?

Has the auditor complied with the requirement not to issue a letter stating that there were no reportable conditions?

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 the 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?

Did the auditor perform appropriate procedures regarding events subsequent to the balance-sheet date, but prior to the date of the report?

If the auditor, subsequent to the date of the report, became aware of facts that may have existed at that date that might have affected the report, had the auditor then been aware of such facts, did the auditor consider the guidance in professional standards, in determining an appropriate course of action, and does the matter appear to be properly resolved?

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? *

Where there is an audit committee or some other formal oversight group, or the client is an SEC client, did the auditor:

Ensure that the appropriate matters were communicated to those with responsibility for oversight of the financial reporting process?

---

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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?

**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—.13 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 direct and material effect on the financial statements performed and documented?

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.)

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse or 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 of suspected illegal acts to the appropriate management levels above the level of involvement?

Were all material instances of weaknesses in internal controls and identified instances of noncompliance with applicable laws and regulations:

Adequately evaluated and documented?

Appropriately reported in accordance with the applicable standards?

Procedures Unique to Audits of Not-for-Profit Organizations*

Did the auditor consider the applicability of OMB Circular A-133?

Does the language in the auditor’s reports conform with professional standards, including references to Government Auditing Standards (optional for reports on basic financial statements) 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?

Auditor’s 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 regulations 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)?

If the entity is subject to OMB Circular A-133 did the auditor include a description of all instances of noncompliance in the audit reports or include a reference to a separate communication?

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?

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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If the auditor expressed a qualified opinion, did he/she disclose all of the substantive reasons for doing so? *

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III. WORKING PAPER AREAS

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<tr>
<td>working Paper Areas Applicable to All Audit Engagements</td>
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<tr>
<td><strong>Cash</strong></td>
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<tr>
<td>Were reconciling items cleared by reference to subsequent statements obtained either directly from the bank or from the client and appropriately tested?</td>
<td>A401</td>
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<tr>
<td>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?</td>
<td>A402</td>
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<tr>
<td>Do the working papers indicate that the following were considered:</td>
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<tr>
<td>Confirmation of cash balances?</td>
<td>A403</td>
<td></td>
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<tr>
<td>Restrictions on cash balances?</td>
<td>A404</td>
<td></td>
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<tr>
<td>Confirmation of bank credit arrangements such as compensating balances?</td>
<td>A405</td>
<td></td>
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<tr>
<td>Confirmation of liabilities and contingent liabilities to banks?</td>
<td>A406</td>
<td></td>
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<tr>
<td>Based on the assessment of control risk, do the substantive tests of cash appear adequate?</td>
<td>A407</td>
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<tr>
<td>*<em>Receivables</em></td>
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<tr>
<td>Were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternative procedures?</td>
<td>A408</td>
<td></td>
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<tr>
<td>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?</td>
<td>A409</td>
<td></td>
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<tr>
<td>If a significant number and amount of accounts receivable were not confirmed, is there evidence that other auditing procedures were performed?</td>
<td>A410</td>
<td></td>
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<tr>
<td>Were significant notes receivable confirmed as of the balance sheet date?</td>
<td>A411</td>
<td></td>
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<tr>
<td>Were the results of confirmation and alternative procedures summarized, and were appropriate conclusions included in the working papers?</td>
<td>A412</td>
<td></td>
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<tr>
<td>Was collateral (if any) for receivables examined with respect to existence, ownership and value?</td>
<td>A413</td>
<td></td>
</tr>
<tr>
<td>Were adequate tests of discounts and allowances made?</td>
<td>A414</td>
<td></td>
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<tr>
<td>Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?</td>
<td>A415</td>
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</table>

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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 accounts receivable confirmations were not requested, has the auditor documented how the presumption for such requests was overcome and were the reasons appropriate?

If FAS No. 114 was applicable to this engagement (either as a result of the statement’s effective date or the early adoption of the statement), are impaired loans (e.g., impaired accounts receivable with terms exceeding one year, notes receivable and other loans) carried at the present value of the loans' expected future cash flows discounted at the loans' effective interest rates or at the observable market prices or the fair values of the collateral if the loan are collateral dependent?

Based on the assessment of control risk, do the substantive tests of receivables appear adequate?

**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 relatively large 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?

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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 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 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 inspected or confirmed?

Was the computation of realized and unrealized 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 possible impairment of the carrying value of long-term investments made?

Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on their immediate marketability?

For investments accounted for under 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, etc.)?

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?

---

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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### Summary Audit Engagement Checklist

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<td>Intangible assets?</td>
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<tr>
<td>Deferred charges?</td>
<td>A448</td>
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<tr>
<td>Other?</td>
<td>A449</td>
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</tbody>
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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?

### 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 whether 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 existence?

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?

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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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?

Were significant notes and bonds payable, together with interest rates and repayment periods, etc., confirmed or alternative procedures applied?

Were procedures performed to determine whether the carrying value of notes payable reflects the present value of the consideration received and the appropriate interest rates?

Do the workpapers indicate that the auditor reviewed compliance with the covenants of the entity’s 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 for 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?

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 contain evidence of the following:

- Inspection of minutes of meetings of the stockholders, board of directors, and executive and other committees of the board?

---

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
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 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?

Have all material contingencies been properly considered, documented, and reported?

Were the audit procedures regarding financial instruments appropriately designed, executed, and documented in the working papers, and were the disclosures in the financial statements adequate?

Was appropriate consideration given to issues related to environmental matters, including the requirements of SEC SAB No. 92 and EITF 93-5?

**Capital Accounts**

Were changes in capitalization checked to authorizations?

If applicable, was confirmation received from the registrar, or was examination made of stock certificate records?

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 budget and 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?

---

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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Income recognition when the right of return exists?

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 supplementary 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, results of operations, or cash flows?

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?

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?

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?

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
Review of repurchase security transactions for consistency with the disclosures on the terms and conditions?

Are cash overdrafts from pooled cash and investments accounted for as an interfund receivable or payable?

### Receivables
Were procedures performed to provide evidence that receivables and the related revenues were recorded in the correct period?

In governmental funds, were revenues that were measurable but did not meet the available criteria properly recorded as deferred?

### Inventories
Do the working papers indicate that there were adequate tests of:
- Physical observation, if material?

### Investments*
For joint venture investments (accounted for under the equity or other method), were financial statements and other information reviewed to support the amounts presented and the related disclosures?

Was a review made to determine whether the investments are of the types authorized by law or in compliance with the applicable statutes and investment policies?

Were income, gains and losses from investments examined for proper allocation to the individual funds?

### Property, Plant and Equipment
Was a review made to determine that capital expenditures were classified in the proper fund accounts and made in accordance with budgetary requirements?

### Liabilities
Were procedures performed to determine whether deferred compensation plans were appropriately accounted for?

Was an examination made to determine that:
- New debt issues were properly authorized as required by the state constitution or state/local statutes and recorded in the correct fund and/or account group?

- Debt restrictions, guarantees and other debt commitments were properly disclosed?

Do the tests of interfund borrowings appear adequate with respect to:
- Legal restrictions, if any, on such borrowings?
- Authorization?
- Classification?
- Appropriateness of interest accruals and payments?

---

* 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 working papers contain sufficient documentation of tests of liability recognized for claims incurred but not reported (IBNR) as of the balance sheet date?

**Deferred Revenue**
Do the working papers reflect consideration of whether the basis of deferring revenue is reasonable and consistent with restrictions imposed by the grantor or by the special assessment?
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 contain evidence of the following:
- Accounting for municipal solid waste landfill closure and postclosures care costs?
- Consideration of prior audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?
- Inspection of long-term contracts with nongovernmental 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, 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?
Have all entries to contributed capital been properly accounted for?

**Revenues and Expenditures/Expenses**
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?
Do the working papers indicate that the auditor considered the effect of direct program income on federal grants?
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 significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
If the entity is reimbursed by a third party for costs incurred in connection with providing services to others:

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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?

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?
- The effects of the grantees' compliance or noncompliance with performance requirements?
- Does the accounting and financial reporting for proprietary funds comply with GASB Statement No. 20?

**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 interfund borrowings have been identified and appropriately recorded?

**Receivables**

Were procedures performed to provide evidence that pledged receivables were 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 were unrealized gains and losses appropriately recognized?

Do the working papers indicate tests of the unit market value calculations of pooled investment funds, including the appropriate treatment of additions to and withdrawals from the pool?

Were income and realized and unrealized gains and losses from investments examined for proper allocation to the individual funds?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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Do the working papers indicate that consideration was given to investments that were pledged, restricted, or had limitations on marketability?

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 was considered exhaustible, do the working papers indicate that the auditor tested the reasonableness of the related amortization?

Whether or not the collection was capitalized, are the tests adequate with respect to acquisitions and deaccessions?

If the collection was capitalized:

Were physical inventories observed at all locations where relatively large amounts were 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)?

If the collection was considered inexhaustible and was not 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 and were proper conclusions drawn with respect to valuation of assets not previously capitalized?

Was a review made to determine that capital expenditures were classified in the proper fund accounts?

Liabilities

Were procedures performed to determine whether tax deferred annuity and life income plans were 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?

* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
Was 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?

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 as to whether the basis for 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 or substantial unrelated business income activities) 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 contingencies in accordance with professional standards?

**Fund Balance**

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?

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* If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
If an endowment fund was maintained, do the working papers indicate that fund income was distributed to unrestricted and restricted funds in accordance with donors' stipulations?

**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 were recognized as revenue/expenses in the period received/made, at their fair values?
- Contributions that increase net assets were categorized between permanently restricted, temporarily restricted and unrestricted?
- Donor-imposed restrictions which expired were recognized in the period in which they expired?
- Contributions for services were recognized only if they created or enhanced nonfinancial assets or required specialized skills that would have been purchased if not provided by donation?

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 and contributed services?*
- Gifts of securities, materials, facilities, and other nonmonetary items?
- Future interests and interest free loans?

If expenses were classified by function, did the auditor adequately test the classifications and allocations?

If joint costs of multipurpose activities were incurred, were the requirements of SOP 87-2 appropriately considered?

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Summary Audit Engagement Checklist

Were fundraising costs expensed in the proper period?

If grants were 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?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
IV. 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 effects appropriately considered?

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?

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?

Consultation

Was there appropriate consultation and documentation:

In situations specified by firm policy?

Where the complexity or unusual nature of the issue warranted it?

Does it appear that the persons consulted, if any, were aware of all relevant facts and circumstances?

Based on the facts and circumstances, were the firm’s conclusions, reasonable and 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?

* If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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**Audit Engagement Checklist**

Did the owner (or manager) approve the overall audit plan (including the audit program) as the final planning step and convey approval or modifications to the engagement staff?

A615

Does it appear that hours charged by the owner, manager, and, where applicable, by the concurring reviewer were adequate and appropriately timed to provide for planning and supervision as the job progressed?

A616

Were all forms, checklists, or questionnaires, if any, required by firm policy for the following areas adequately completed and modified, where appropriate, for the engagement:

- Planning checklist?
- Review of internal control structure:
  - Manual system?
  - EDP system?
- Audit work programs?
- Financial statement disclosures?
- Working paper and financial statement reviews?

A617
A618
A619
A620
A621
A622

If standardized forms, etc., were not used for any of the above areas, is there adequate documentation of these areas?

A623

Were the firm’s guidelines for the form and content of audit working papers complied with?

A624

If used, were such audit tools as computer auditing or statistical sampling properly evaluated by persons with training in these areas?

A625

If required by firm policy, was an appropriate pre-issuance review made of the working papers, report, and financial statements by a person whose position in the firm is commensurate with that responsibility, to determine that the work performed was complete and conformed to professional standards and firm policy and was that review documented?

A626

**Advancement**

If required by firm policy, was the staff on this engagement appropriately evaluated?

A627

**Acceptance and Continuance of Clients**

Does it appear that the firm’s guidelines for acceptance and continuance of clients were complied with?

A628

**Professional Development**

Did the personnel assigned to this engagement appear to be familiar with the applicable professional pronouncements (FASB, AICPA, GASB, SEC, etc.)?

A629

*If the significance or frequency of the “no” answers warrants the preparation of a matter for further consideration form, provide the cross-reference.*
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<th>QUES.</th>
<th>Engagement Code</th>
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<td>A714</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A715</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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):

Read the entire prospectus and other pertinent portions of the registration statement?

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 Sec. 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?

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 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 if applicable, in conformity with the requirements of the SEC Practice Section?

If management consulting services were performed during the year under audit, was the firm in compliance with the Section’s requirements:

Proscribing the performance of certain management consulting services?

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 significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.

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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?*

If the client-auditor relationship with an SEC registrant subsequently ceased, has the auditor sent a letter to the registrant agreeing or disagreeing with the client's reasons for the change in auditors as stated on Form 8-K within the required time? (See Regulation S-K, Item 304—Changes in and disagreements with accountants and financial disclosure.)

*A716

A717

*If the significance or frequency of the "no" answers warrants the preparation of a matter for further consideration form, provide the cross-reference.
PRP Section 8000

OFF-SITE PEER REVIEWS FOR FIRMS THAT PERFORM NO AUDITS

---

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<td>Engagement Statistics Data Sheet—Off-Site Peer Reviews</td>
</tr>
</tbody>
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[The next page is 8101.]
PRP Section 8100

Instructions to Firms Having an Off-Site Peer Review

.01 An off-site peer review is available to firms that do not perform audits of historical or prospective financial statements but that do provide compilation and/or review services to certain of their clients. Off-site quality reviews are administered by state CPA societies that elect to participate in the program. One of those entities, as appropriate (the administering entity) will contact your firm at the appropriate time to make arrangements for the conduct of the review. In preparation for the review, you should read the applicable sections of Standards for Performing and Reporting on Peer Reviews issued by the AICPA Peer Review Board (at least the sections headed Introduction, General Considerations, Performing Off-Site Peer Reviews, Reporting on Reviews, and Acceptance of Reviews).

.02 Prior to the review, the administering entity or the assigned reviewer will ask you to provide summarized information showing the number of review and compilation clients and the level of service provided to those clients, classified into major industry categories and broken down by each owner of the firm who is responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Appendix A to these instructions.

.03 Discuss with the reviewer the twelve-month period to be covered by the review. That period should end within six months of the performance of the review.

.04 Based on that information, the administering entity or the assigned reviewer will advise you of the types of engagements to be selected for review. (For example, you may have reported that Owner A issues review reports on four construction contractors, two retailers, and ten manufacturers, while Owner B issues compilation reports on thirty doctors and review reports on five restaurants. You may be asked to submit one of Owner A’s review reports on a construction contractor and one of Owner B’s compilation reports on a doctor. You will select the specific engagements following those instructions.)

.05 The number of engagements selected ordinarily will adhere to the following guidelines:

a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting—for each owner responsible for the issuance of reports. However, at least two engagements must be selected for the firm.

b. In addition to the selection made in .05a above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting. However, if the firm’s accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.

.06 Within thirty days of being notified by the reviewer or the administering entity of the type of engagements selected for review, the firm should submit the following information for each engagement selected—

a. A copy of the financial statements and accountant’s report. The client’s name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.
b. A completed "engagement questionnaire" (see Appendix B).

.07 The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

.08 A firm may be dropped from the peer review program or the private companies practice section, as applicable, if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .06 in sufficient time to enable the reviewer to perform the off-site peer review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

.09 During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

.10 Upon receipt of the report and letter of comments, if any, on the review, the firm should prepare a letter of response to any deficiencies noted in the report and letter of comments. The report, letter of comments, if any, and the letter of response should be submitted to the administering entity within thirty days of the date the report was received from the reviewer.

.11 The administering entity will not make the report on the firm's off-site peer review available to the public. The report should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that it has been accepted by the administering entity.
Appendix A

AICPA Peer Review Program

INFORMATION NEEDED TO ASSIGN AN OFF-SITE REVIEWER

1. Firm Name ______________________

2. Did your firm perform any audits during the last twelve months? Yes □ No □ If yes, please indicate the date that you issued your last audit report / / and the date of the client’s year end / / .

3. Does your firm plan to perform any audit engagements during the next twelve months? Yes □ No □

4. Whenever possible, we select a reviewer who practices in the state in which your firm’s main office is located unless you object. However, we will not select a reviewer located in the immediate geographic area of that office or such other geographic areas specified by you because, for example, you have a significant office or client in that area. We use the first three digits of the postal zip code to define a geographic area.

   a. Do you object to a reviewer being selected from other areas in the state in which your main office is located? Yes □ No □ If yes, the reviewer will be selected from a state other than the state in which your main office is located.

   b. If the answer to 4.a. is no, please indicate the first three digits of the zip codes of those areas within your state—other than the area in which your main office is located—from which you would not like a reviewer to be selected.  

5. Please provide the information on page 8104 concerning the number of review and compilation clients and the nature of the level of service provided to those clients during the last twelve months. This information should be classified into major categories and broken down by each owner of the firm (proprietor, partner, or shareholder) who is responsible for the issuance of review or compilation reports.

6. Indicate the date on which you would like the review to commence / / .

---

1 To determine whether there are zip code areas which you would like excluded, you may wish to refer to your local phone book(s), client lists, or mailing lists, if any.
**OFF-SITE PEER REVIEW ENGAGEMENT SUMMARY FORM***

For the Twelve Month Period Ended __/__/ 

<table>
<thead>
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<th>Industry of the Client ²</th>
<th>Level of Service Provided ³</th>
<th>Owner 1</th>
<th>Owner 2</th>
<th>Owner 3</th>
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<td></td>
<td>CP</td>
<td>_______</td>
<td>_______</td>
<td>_______</td>
</tr>
</tbody>
</table>

Number of Engagements Performed ⁴

---

Signature __________________________________________ Date __________________________

Title _______________________________________________

---

*** Please refer to par. .02 on page 8101 for instructions in completing this form.
² Please use the industry codes on page 8105.
³ Please use the level of service codes on page 8105.
⁴ Each monthly compilation engagement counts as one engagement.

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Level of Service Codes

Please use the following codes to reflect the level of service provided:

- **R** Review of historical or personal financial statements
- **C** Compilation of historical or personal financial statements with disclosures
- **CO** Compilation of historical or personal financial statements that omits substantially all disclosures
- **CP** Compilation of prospective financial information

**Industry Codes**

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<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
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<tr>
<td>115</td>
<td>Airlines</td>
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<td>120</td>
<td>Auto Dealerships</td>
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<td>Investment Companies and Mutual Funds</td>
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<td>Leasing Companies</td>
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<td>Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
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<td>265</td>
<td>Employee Benefit Plans (including ERISA audits)</td>
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<td>268</td>
<td>Personal Financial Statements</td>
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<tr>
<td>270</td>
<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
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Appendix B
AICPA Peer Review Program
ENGAGEMENT QUESTIONNAIRE—OFF-SITE PEER REVIEWS
(To Be Completed by Reviewed Firm)

FIRM NAME ___________________________________________________________

General Data

Engagement Name or Code No. ____________________________________ (If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

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<thead>
<tr>
<th>Period covered by financial statements</th>
<th>Total assets $</th>
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<td>Date of report</td>
<td>Long-term debt $</td>
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<tr>
<td>Date report released</td>
<td>Equity $</td>
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<tr>
<td></td>
<td>Net sales $</td>
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<tr>
<td></td>
<td>Net income $</td>
</tr>
</tbody>
</table>

Major lines of business ____________________________________________

<table>
<thead>
<tr>
<th>Name</th>
<th>Hours on Engagement</th>
<th>Number of Years on Job</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Accountant with final responsibility for the engagement (for example, sole practitioner or engagement owner) ___________________________ ___________ ___________

Accountant in charge of field work (for example, manager, supervisor, or senior accountant) ___________________________ ___________ ___________

Other personnel (number only) ___________________________ ___________ ___________

Nature of Entity:

( ) Independent entity
( ) Consolidated or combined group
( ) Subsidiary, division or branch
( ) Other (explain) ____________________________________________

Nature of Service:

( ) Review engagement
( ) Compilation engagement
( ) Compilation engagement—substantially all required disclosures omitted
( ) Other (explain) ____________________________________________

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Financial Statements Included:

( ) Balance sheet
( ) Income statement
( ) Statement of cash flows
( ) Statement of retained earnings
( ) Supplementary information (describe) ________________________________________________________________
( ) Other (explain) ________________________________________________________________

Accounting Basis for Financial Statements:

( ) Generally accepted accounting principles
( ) Cash basis
( ) Income tax basis
( ) Other (explain) ________________________________________________________________

Specific Engagement Questions

A. Is the firm independent with respect to this entity? (Explain a "no" answer in the "commentary" section of this questionnaire.)

B. Did the entity have any balances, transactions, events, or agreements of the following types during the year covered by the financial statements? If the answer is "yes," please indicate in the third column entitled "Ref." where the matter is disclosed—using the codes "R" for the accountant's report, "F" for financial statements, or "FN" for footnotes. If the answer is "yes" but the matter is not disclosed, please provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed. (Do not answer this question for engagements to compile financial statements that omit substantially all disclosures.)

1. Accounting changes. (AC Sec. A06) ________________________________________________________________
2. Business combinations. (AC Sec. B50) ________________________________________________________________
3. Related party transactions (including receivables and payables from officers, employees and affiliates). (AC Sec. R36) ________________________________________________________________
4. Leasing arrangements. (AC Sec. L10.106, .112, .119 and .143-.149) __________________________
5. Pension plans. (AC Sec. P16) ________________________________________________________________
6. Postemployment and postretirement plans other than pensions. (AC Secs. P32 and P40) ________________________________________________________________
7. Stock option or purchase plans. (AC Sec. C47) ________________________________________________________________
8. Contingencies. (AC Secs. C59.104-.114, C32.102-.105 and C59.118-.120) ________________________________________________________________
9. Commitments. (AC Secs. C59.104-.114, C32.102-.105 and C59.118-.120)  
   YES  NO  REF.

10. Significant events between the balance sheet and report dates. (AC Sec. C59)  

11. Pledging of assets. (AC Sec. C59.120)  

12. Loan agreements or covenants imposing significant restrictions. (AC Secs. C32.105 and C59.120)  

13. Capital stock with significant rights or preferences. (AC Sec. C16)  


15. Discontinued operations. (AC Sec. I 13)  

16. Extraordinary items. (AC Sec. I 17)  

17. Unusual or infrequent items. (AC Sec. I 22)  

18. Restrictions on cash balances. (AC Secs. B05.107 and C59.120)  

19. Allowance for doubtful accounts. (AC Sec. V18)  


21. Investments in debt or equity securities. (AC Secs. I 80 and I 89)  

22. Financial instruments with concentrations of credit risk. (AC Sec. F25.115)  

23. Financial instruments with off-balance sheet risk. (AC Sec. F25.112)  

24. Other valuation accounts. (AC Sec. V18)  

25. Income tax expense, benefits, temporary differences, investment tax credits and other information on the effect of income taxes. (AC Sec. I 27)  

26. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate. (AC Sec. I 69)  

27. Economic dependence on customers. (AC Sec. R36.406)  

28. Troubled debt restructurings. (AC Sec. D22.121-.122)  

29. Unusual or specialized accounting policies. (AC Sec. A10.105-.108)  

30. Research and development costs. (AC Sec. R50)  

31. Computer software costs. (AC Sec. Co2.110)  

32. Product financing arrangements. (AC Sec. D18.106-.107)  

33. Foreign operations. (AC Sec. F65)  

---

PRP § 8100.13  Copyright © 1995, American Institute of Certified Public Accountants, Inc.
34. Foreign currency transactions. (AC Sec. F60)

<table>
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35. Nonmonetary transactions. (AC Sec. N35)

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36. Going-concern considerations. (AU Sec. 341.10-.11)

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<th></th>
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<th>NO</th>
<th>REF.</th>
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</thead>
</table>

C. Were there any disagreements with the client on this engagement that, if not resolved to the firm’s satisfaction, would have caused the firm to modify its report or to withdraw from the engagement? If the answer is “yes,” provide sufficient information in the “commentary” section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.

Engagement Owner’s Signature ________________

Date ________________
COMMENTARY ON ENGAGEMENT QUESTIONS

<table>
<thead>
<tr>
<th>Question Number</th>
<th>Commentary</th>
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Note: Attach additional sheets if required.

[The next page is 8201.]
PRP Section 8200

Instructions to Reviewers Performing Off-Site Peer Reviews

Guidance on Performing Off-Site Peer Reviews

<table>
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<td>After the Review ............................................................. .21-.22</td>
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EXHIBITS

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2 Applications of the Off-Site Peer Review Engagement Selection Guidelines .................................................. .24
3 Completing the Off-Site Peer Review Engagement Statistics Data Sheet ......................................................... .25
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B. Off-Site Peer Review Completion Form ................................ .28
Instructions to Reviewers on Performing Off-Site Peer Reviews

Introduction

.01 These materials have been developed based on the Standards for Performing and Reporting on Peer Reviews and materials contained in the Peer Review Program Manual related to off-site reviews.

.02 A firm that issues only compilation or review reports can have an off-site peer review of the reports and the related historical or prospective financial statements. (Those firms may also elect to have an on-site peer review.) Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with this requirement.

.03 Information concerning the reviewed firm or any of its clients or personnel is confidential and cannot be disclosed to anyone not involved in carrying out the review or administering the peer review program.

.04 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

.05 An off-site peer review consists only of reading the accountant’s compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations about the engagements provided by the reviewed firm.

.06 An off-site peer review does not include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site peer review.

Engagement Selection Guidelines

.07 Prior to the review, the administering entity or the assigned reviewer will ask the reviewed firm to provide summarized client information showing the number of review and compilation clients and the nature of the highest level of service provided to those clients, classified into major industry categories and broken down by each owner of the firm responsible for the issuance of review or compilation reports. The form that will be used for this purpose is reproduced in Exhibit 1 to these materials.

.08 Either the reviewer or the administering entity should discuss with the reviewed firm the twelve month period to be covered by the review. That period should end within six months of the performance of the review and all reports selected should have been performed within the period.

.09 Based on the summarized client information, the administering entity or the reviewer will select the number and types of engagements to be reviewed.

.10 Ordinarily, the number of engagements selected should adhere to the following guidelines:

a. Select one review or compilation engagement involving a report on a complete set of financial statements (full disclosure engagement)—as opposed to compilation reports on financial statements that omit substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting—for each owner responsible for the issuance of reports. However, at least two engagements must be selected for the firm.

b. In addition to the selections made in .10a above, select for the firm as a whole, one compilation engagement involving a set of financial statements that omits substantially all of the disclosures required by generally accepted accounting principles or another comprehensive basis of accounting. However, if the firm’s accounting practice consists only of compilation reports on financial statements that omit substantially all required disclosures, select two of these types of engagements.
.11 Exhibit 2 shows how the guidelines in this section can be applied to five sample firms.

.12 The types of engagements selected should also adhere to the following guidelines:
   a. Include both review and compilation engagements, if both levels of service are provided.
   b. Attempt to include clients operating in different industries (especially high risk industries).
   c. Consider engagements involving prospective financial information as well as those involving historical financial statements.

.13 The AICPA and many state societies administering off-site peer reviews advise reviewers they appoint of the number of engagements to be selected. The reviewer should consult with the entity that made the appointment:
   a. If the reviewer finds that the number of engagements he/she has been instructed to select does not conform with the stated guidelines.
   b. If the reviewer has reason to believe that he/she should select more than the number of engagements specified by the administering entity.

.14 Within 30 days after the reviewer or the administering entity provides the firm with a description of the number and types of engagements to be reviewed, the firm should select the engagements in accordance with those specifications and submit the following information to the reviewer or the administering entity (as applicable) for each engagement:
   a. A copy of the most recent financial statements and the accountant’s report. The client’s identity may be masked and assigned a code number. The reviewed firm should keep a record of those code numbers to be able to respond to any questions by the reviewer.
   b. A completed Engagement Questionnaire.

.15 The engagements selected should have been performed within the agreed-upon review year. However, if a more recent report has been issued that falls outside of the review year, that more recent report should be selected.

.16 A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .14 in sufficient time to enable the reviewer to perform the off-site peer review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

Performing the Review

.17 Off-site peer reviews must be documented using the programs and checklists issued by the AICPA Peer Review Board. These materials include a Reviewer’s Checklist (Appendix A) which includes an overview of the way in which an off-site peer review is to be conducted.

.18 Reviewers should review the engagements submitted along with the background information provided by the firm. Questions and possible deficiencies noted during the review should be documented on Matter for Further Consideration (MFC) forms and discussed with the reviewed firm. The reviewer may obtain the firm’s response to the matters noted on the MFC forms by telephone or in writing.

.19 After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 8600) should be completed. The information included on this sheet should be consistent with the information included in the report issued on the review. Exhibit 3 includes some further guidance on completing this sheet.
Off-Site Peer Reviews for Firms That Perform No Audits

.20 Guidance for Writing Peer Review Reports (section 3300) and Appendix G and H in the Standards for Performing and Reporting on Peer Reviews provide guidance on the considerations governing the type of report to issue and includes illustrations of the standard form for an unqualified report and other types of reports. Appendix J includes guidelines for and an illustration of a letter of comments.

After the Review

.21 Within thirty days of the completion of an off-site review, the reviewer should furnish the reviewed firm with a written report and letter of comments, if applicable, and remind the reviewed firm that:

a. The report and letter of comments should be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report.

b. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.

c. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

.22 Within thirty days of the completion of the off-site review, the reviewer should also submit a copy of the report, letter of comments, the review completion form, the working papers, and the engagement statistics data sheet on the review to the state CPA society administering the review. Exhibit 4 includes a list of the documents that should be included in the submitted working papers. Copies of the financial statements that were reviewed should not be included in the working papers; they should either be destroyed or returned to the reviewed firm.
### Exhibit 1

**OFF-SITE PEER REVIEW ENGAGEMENT SUMMARY FORM***

For the Twelve Month Period Ended \[//\]

<table>
<thead>
<tr>
<th>Industry of the Client *</th>
<th>Level of Service Provided *</th>
<th>Owner 1</th>
<th>Owner 2</th>
<th>Owner 3</th>
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</tr>
</tbody>
</table>

Signature ____________________________________________________________ Date ______________________

Title ________________________________________________________________

---

*** Please refer to par. 07 on page 8202 for instructions in completing this form.

2 Please use the industry codes on page 8206.

3 Please use the service codes on page 8206.

4 Each monthly compilation engagement counts as one engagement.

AICPA Peer Review Program Manual PRP § 8200.23
Please use the following codes to reflect the level of service provided:

- **R**  Review of historical or personal financial statements
- **C**  Compilation of historical or personal financial statements with disclosures
- **CO** Compilation of historical or personal financial statements that omits substantially all disclosures
- **CP** Compilation of prospective financial information

### Industry Codes

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<td>Airlines</td>
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<tr>
<td>120</td>
<td>Auto Dealerships</td>
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<td>125</td>
<td>Banking</td>
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<td>130</td>
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<td>Brokers and Dealers in Commodities</td>
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<td>Continuing Care Retirement Communities</td>
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<td>Credit Unions</td>
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<td>225</td>
<td>Insurance Agents and Brokers</td>
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<td>Investment Companies and Mutual Funds</td>
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<td>Leasing Companies</td>
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<td>Motor Carriers</td>
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<td>260</td>
<td>Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
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<td>265</td>
<td>Employee Benefit Plans (including ERISA audits)</td>
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<td>999</td>
<td>Other (describe)</td>
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</table>
Exhibit 2

APPLICATIONS OF THE OFF-SITE PEER REVIEW ENGAGEMENT SELECTION GUIDELINES

Guidelines

The Standards for Performing and Reporting on Peer Reviews require a review to:

- Category 1—Reviews and Full Disclosure Compilations: Select one review engagement or one compilation engagement involving a report on a complete set of financial statements for each owner responsible for the issuance of such reports. However, a minimum of two engagements with disclosures must be selected from this category.

- Category 2—Compilations That Omit Disclosures: Select one set of financial statements that omit substantially all disclosures required under generally accepted accounting principles or an other comprehensive basis of accounting. However, two engagements of this type must be selected if the firm issues no reports with full disclosures.

Example 1

**FACTS:** A sole practitioner performs three review engagements, two full disclosure compilations and forty compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Three engagements should be selected for review: one review engagement; one full disclosure compilation engagement; and one compilation engagement that omits substantially all disclosures. One review engagement and one full disclosure compilation engagement should be selected because the firm performs both types of engagements and there must be a minimum of two from Category 1. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs full disclosure engagements.

Example 2

**FACTS:** A sole practitioner performs one full disclosure compilation and fifteen compilations that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Two engagements should be selected for review: one full disclosure compilation engagement and one compilation engagement that omits substantially all disclosures. The one full disclosure compilation engagement should be selected because the firm performs this type of engagement. Only one compilation engagement that omits substantially all disclosures should be selected because the firm performs at least one full disclosure engagement.

Example 3

**FACTS:** A sole practitioner performs five compilations that omit substantially all disclosures. The sole practitioner performs no review or full disclosure compilation engagements.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosures.
Example 4

FACTS: The firm has three owners and performs three review engagements, three full disclosure compilation engagements, and forty compilations that omit substantially all disclosures.

- Owner No. 1 is responsible for two review engagements, one full disclosure compilation engagement, and twenty compilations that omit substantially all disclosures.
- Owner No. 2 is responsible for one full disclosure compilation engagement and thirteen compilations that omit substantially all disclosures.
- Owner No. 3 is responsible for one review engagement, one full disclosure compilation engagement and seven compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Four engagements should be selected for review as follows:

- Three full disclosure engagements, one for each owner, since each of the three owners has responsibility for issuing reports on full disclosure engagements. These three engagements should include at least one review engagement and one compilation engagement with full disclosure since the firm provides both levels of service.
- One compilation engagement that omits substantially all disclosures.
- In making the engagement selections, attempt to cover different industries to the extent possible.

Example 5

FACTS: The firm has three owners and performs only thirty compilations that omit substantially all disclosures.

- Owner No. 1 is responsible for eight compilations that omit substantially all disclosures.
- Owner No. 2 is responsible for fifteen compilations that omit substantially all disclosures.
- Owner No. 3 is responsible for seven compilations that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

Answer: Two compilation engagements that omit substantially all disclosures should be selected for review since the firm performs no review or compilation engagements with full disclosure. The two engagements selected should be performed by a different owner.

PRP § 8200.24
Exhibit 3

COMPLETING THE OFF-SITE PEER REVIEW ENGAGEMENT STATISTICS DATA SHEET

After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (Section 8600) should be completed. That form should be completed based on the following guidance.

Section I

Section I asks for information concerning the number of engagements reviewed and the number of engagements deemed substandard. The term “substandard engagements” cannot be found in any formal accounting, auditing, or practice-monitoring program literature. However, it is used by most parties involved in the administration of the practice-monitoring programs to refer generically to situations in which a firm has not complied in all material respects with professional standards.

An engagement is deemed to be “substandard” when—

- One or more procedures considered necessary at the time of an engagement were omitted.
- Subsequent to the date of an issued report, the firm becomes aware that facts may have existed at that date which might have affected its report had it then been aware of such facts. This includes reporting, disclosure, and measurement errors. (See paragraph .27 for some examples.)

Reference should be made to AR Sections 100.42, 9100.13, and 9100.14 of AICPA Professional Standards when “substandard engagements” are encountered on a review. These sections also suggest that the guidance in the following sections be considered in these circumstances:

- AU Section 390 of AICPA Professional Standards—Consideration of Omitted Procedures After the Report Date
- AU Section 561 of AICPA Professional Standards—Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report

An engagement is not generally called substandard when—

- Minor disclosure deficiencies are omitted and the omissions do not cause the financial statements to be misleading.
- An error has been made in accounting for a transaction and the error is immaterial.
- The accountants’ report does not cover all periods covered by the financial statements.
- The accountants’ report does not cover the supplemental information that was issued along with the financial statements.
- The titles on the financial statements are not consistent with the report issued.

Section II

Section II asks the reviewer to describe the reasons why he/she concluded that one or more engagements were substandard. If the reviewer indicates in Section I that three engagements were substandard, then Section II should describe why the three engagements were deemed substandard.

To assist the reviewer in noting why an engagement is substandard, two Reason Codes have been provided:

AICPA Peer Review Program Manual PRP § 8200.25
GAP should be used to indicate that the financial statements and/or footnotes are not in accordance with generally accepted accounting principles.

SAR should be used to indicate that the report was not in accordance with the Standards for Accounting and Review Services.

After entering the Reason Code, the reviewer should provide a brief description of the deficiency noted.

Some examples of comments that might be written when a GAP Reason Code is noted are:

- No footnotes on the review engagements.
- No footnotes on the compilation engagement and the report is not appropriately modified.
- One or more significant footnotes omitted. Also, indicate the nature of the footnote (i.e., leases, related parties, pensions, accruals, etc.).
- A statement of changes in financial position has been issued rather than a statement of cash flows.

Some examples of comments that might be written when a SAR Reason Code is noted are:

- No compilation report issued.
- The compilation report does not indicate that substantially all disclosures have been omitted.
- The compilation report does not indicate that a statement of cash flows has been omitted.
- A standard report on financial statements prepared under generally accepted accounting principles was issued rather than a report indicating that the financial statements have been prepared under an other comprehensive basis of accounting.

Section III

Section III asks the reviewer to indicate the actions that the reviewed firm has taken or plans to take with respect to each substandard engagement. If the reviewer indicates in Sections I and II that three engagements were substandard, then Section III should include a description of the actions taken or to be taken on each of three substandard engagements.

To assist the reviewer in noting the actions taken or to be taken by the reviewed firm and to reduce the amount of writing, six Action Codes are set forth on the data sheet. A comment field has been provided in the event that the reviewer wishes to provide additional information or to describe an Action which is not covered by the six Action Codes provided. If a reviewer can use one of the six Action Codes provided and has no other comments, the Comments section does not have to be completed.

Under the professional standards cited under the explanation of Section I, the major factor to be considered when evaluating what actions should be taken on substandard engagements is whether or not there are persons currently relying or likely to rely on the report and financial statements that have been issued. When persons are currently relying or likely to rely on the report and financial statements that have been issued, professional standards suggest that—

- The firm promptly undertake to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for its report.

PRP § 8200.25  Copyright © 1995, American Institute of Certified Public Accountants, Inc.
Exhibit 3
(Continued)

- The firm should issue a revised report and financial statements as soon as practicable; ordinarily, the reason for the revision should be described in a note to the financial statements and referred to in the report.

If the issuance of financial statements of the subsequent period is imminent, so that disclosure of the information is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements. Before any action is taken on the part of the reviewed firm with respect to substandard engagements, the professional standards suggest that an attorney be consulted.

Section IV

Section IV asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On an off-site peer review, such requests will be rare.
Exhibit 4

DOCUMENTS TO BE SUBMITTED TO THE ADMINISTERING ENTITY BY INDIVIDUALS PERFORMING OFF-SITE PEER REVIEWS

The following is a list of the documents that should be submitted by the reviewer to the administering entity:

<table>
<thead>
<tr>
<th>Document Description</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Report and Letter of Comments (if applicable)</td>
<td>—</td>
</tr>
<tr>
<td>2. Off-Site Peer Review Engagement Summary Form</td>
<td>8205</td>
</tr>
<tr>
<td>3. One Engagement Questionnaire for Each Selected Engagement</td>
<td>8106-8109</td>
</tr>
<tr>
<td>4. Reviewer’s Checklist</td>
<td>8213-8215</td>
</tr>
<tr>
<td>5. Off-Site Peer Review Completion Form</td>
<td>8216</td>
</tr>
<tr>
<td>6. One Reviewer’s Engagement Checklist for Each Full Disclosure Engagement Selected for Review</td>
<td>8302-8310</td>
</tr>
<tr>
<td>7. One Reviewer’s Engagement Checklist for Each Compilation Engagement Selected for Review That Omit Substantially All Disclosures</td>
<td>8311-8316</td>
</tr>
<tr>
<td>8. Reviewer’s Checklist for Review of Compliance with the PCPS Membership Requirements</td>
<td>8402</td>
</tr>
<tr>
<td>9. Matter for Further Consideration Forms—Off-Site Peer Reviews</td>
<td>8502</td>
</tr>
<tr>
<td>10. Engagement Statistics Data Sheet</td>
<td>8602</td>
</tr>
</tbody>
</table>
Appendix A

REVIEWER’S CHECKLIST—OFF-SITE PEER REVIEWS

This checklist must be completed on all off-site peer reviews of firms enrolled in the AICPA Peer Review Program or members of the private companies practice section.

Off-site peer reviews are administered by state CPA societies participating in the program. Those entities are referred to collectively as the administering entity.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

1. If the firm was previously reviewed, read the report and letter of comments, if any, on the prior review and the firm’s response thereto and make note of deficiencies discussed in the report, all of which should be emphasized in the current review:

2. Determine that the reviewed firm has submitted engagements for review in accordance with instructions previously provided to it by the administering entity or by you as the reviewer and indicate the number of engagements selected.

3. Perform the procedures outlined in the “Reviewer’s Engagement Checklist for Off-Site Peer Reviews.” Make any oral inquiries deemed necessary to consider whether the financial statements and accountant’s reports submitted by the reviewed firm appear to conform with the requirements of professional standards. Requests for working papers should not be necessary. An off-site peer review does not include a review of the working papers prepared on the compilation and review engagements submitted for review. (See the Standards for guidance on the objective of and basic requirements for an off-site peer review.)

4. During the review discuss and make note of—
   (i) the number of owners.
   (ii) the number of owners with responsibility for issuing reports on a complete set of financial statements.
   (iii) whether you found it necessary to increase the scope of the review beyond the minimum required under the Standards and, if so, describe the extent and reasons for the increase. ( Ordinarily, the scope of the review should not be expanded beyond the minimum unless authorized by the administering entity.)
5. Prepare a matter for consideration form (MFC) to document all significant matters that require additional information or explanation of facts from the reviewed firm.

6. Obtain the firm's response to all significant deficiencies by telephone or in writing on a "Matter for Further Consideration" form.

7. Consult with the administering entity (a) whenever the reviewer and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, whether action should be taken to prevent future reliance on a previously issued report, and whether a report issued by the firm was not in conformity with professional standards, and (b) whenever the firm does not respond promptly to oral or written inquiries, which may constitute a failure to cooperate.

8. At the conclusion of the review: review all matters, including the firm's response, on MFC forms, and document your reasons for including or not including such matters in the report on the review.

9. If the report to be issued is other than unqualified, communicate that fact to the appropriate individual in the reviewed firm. As previously noted, consult with the administering entity if there is an unresolved disagreement with the firm as to the report to be issued or the findings on the review.

10. If a letter of comments was issued, did any matters in the letter cause you to consider issuing a qualified or adverse report but not result in such a report being issued? Yes ___ No ___. If "yes," describe such matter fully, indicating the basis for the conclusion.

11. Describe below the nature and extent of each matter discussed with the owner(s) of the firm that was not deemed of sufficient significance to include in the letter of comments.

12. Prepare a report and letter of comments, if applicable, on the review following the guidance in the Standards, and—

   a. Submit the original of the report and letter of comments to the reviewed firm within thirty days of the date of the completion of the off-site peer review. Ordinarily, those off-site review procedures should be completed within thirty days of the date the reviewer receives the materials to be reviewed.
b. Submit a copy of the report, letter of comments, the review completion form (see Appendix B), the engagement statistics data sheet (see PRP section 8600), and the working papers on the review to the administering entity by an insured carrier.

c. Remind the firm that:

   (i) The report and letter of comments should be sent along with an appropriate response by the reviewed firm to the administering entity within thirty days of the date it receives the report.

   (ii) The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.

   (iii) The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

13. For reviews conducted by committee-appointed reviewers, submit your bill to the administering entity. Make sure the bill includes the Federal employer identification number for Form 1099 purposes, when applicable.

14. After the report on the review has been accepted, return the financial statements to the firm or shred the financial statements received.
Appendix B

OFF-SITE PEER REVIEW COMPLETION FORM

Date: ______________________

To: ______________________________________________________________

From: _____________________________________________________________

(Name of the Reviewer)

Re: Review of ______________________________________________________

Firm Number _____________________ Review Number ____________________

1. On what date was the off-site peer review completed? _______________

2. When was the report and letter of comments, if any, mailed to the reviewed firm? _______________

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

4. Where will the working papers be shipped?

_____________________________________________________________

_____________________________________________________________

_____________________________________________________________

5. When will the working papers be shipped to the entity noted in (4) above? _______________

   * * * * * * * * *

Reviewer’s Signature _______________________________

Date: ________________________________

[The next page is 8301.]

* Please use the following codes:
  1. Unqualified—No letter of comments
  2. Unqualified—With letter of comments
  3. Qualified—Report comments on “Significant Departures” and has an “Except for” opinion
  4. Qualified—Membership Requirements of the PCPS
  5. N/A
  6. Qualified—Significant Departures and Membership Requirements of the PCPS
  7. Adverse
PRP Section 8300

Reviewer’s Engagement Checklists—Off-Site Peer Reviews

.01 This section of the manual contains a reviewer’s engagement checklist for off-site peer reviews. This section also contains a checklist for compilations that omit substantially all disclosures. A checklist should be completed for each engagement reviewed.

.02 The objective of an off-site peer review is to provide the reviewer with a reasonable basis for expressing limited assurance that the compilation and review engagements submitted for review do not depart in a material respect from the requirements of professional standards.

.03 An off-site peer review consists only of reading the accountant’s compilation or review report and the related historical or prospective financial statements submitted by the firm, together with certain background information and representations provided by the reviewed firm.

.04 The objective of the review of these engagements is to consider whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant’s report appears to conform with professional standards.

.05 An off-site peer review does not include a review of the working papers prepared on the selected compilation or review engagements, tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in an on-site peer review.
AICPA Peer Review Program

OFF-SITE PEER REVIEWS—GENERAL

Engagement Code No.____________ Reviewer_________________ Date____________

<table>
<thead>
<tr>
<th>A. Accountant’s Report</th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>2. Does the report adequately disclose all required matters and does it contain the elements required by professional standards including appropriate language describing any modification from professional standards, if appropriate? (AR Sec. 100.9-.21 and .39-.41)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>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)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>5. If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>6. Does each page of financial statements that have been compiled or reviewed include a reference to the accountant’s report? (AR Sec. 100.16)</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
</tbody>
</table>

B. Financial Statements and Footnotes

**General**

1. Are the financial statements suitably titled? (AU Sec. 623.07 and .24) | ___ | ___ | ___ | ___ |
2. Do the financial statements appear to be free of material error? (AR Sec. 100.13) | ___ | ___ | ___ | ___ |
3. Is the accounting appropriate and are the disclosures adequate regarding:
   a) Significant accounting policies? (AC Sec. A10.105-.108) | ___ | ___ | ___ | ___ |
   b) Accounting changes? (AC Sec. A06) | ___ | ___ | ___ | ___ |
   c) Comparative financial statements? (AC Sec. F43) | ___ | ___ | ___ | ___ |
   d) Business combinations? (AC Sec. B50) | ___ | ___ | ___ | ___ |
4. Are all majority-owned subsidiaries consolidated in the financial statements, unless consolidation is specifically not required by professional standards? (AC Sec. C51.102) | ___ | ___ | ___ | ___ |

* 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.
5. If an individual or entity controls a group of related entities, did the accountant consider the need for combined statements? (AC Sec. C51.121-122)  

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF**</th>
</tr>
</thead>
</table>

6. 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)  

7. 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)  

8. Are required disclosures made concerning related party transactions? (AC Sec. R36)  

9. Are required disclosures made regarding economic dependence on one or more major customers? (R36.406)  

10. Are foreign currency transactions and translation of financial statements denominated in a foreign currency accounted for and disclosed? (AC Sec. F60)  

11. Are foreign operations and export sales adequately accounted for? (AC Sec. F65)*  

12. Are nonmonetary transactions properly accounted for and disclosed? (AC Sec. N35)  

13. With respect to contingencies and commitments—  
   a) Are loss contingencies accrued and/or disclosed as appropriate? (AC Sec. C59.104-.114)  
   b) Are other contingencies and commitments adequately disclosed? (AC Secs. C32.102-.105 and C59.118-.120)  

14. Are the financial statements adjusted, where appropriate, for the effect of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made? (AC Secs. C59.105 and .112, 560.03-.09 and 561)  

15. Are the financial statements adjusted, where appropriate, and do they disclose uncertainties regarding the entity's ability to continue as a going concern? (AU Sec. 341.10-.11)  

16. Is the required information on defined benefit pension plans adequately disclosed? (AC Sec. P16.150)  

17. Are all other pension plans adequately disclosed? (AC Sec. P16)  

18. Is the required information on defined benefit post-retirement plans, other than pensions, adequately disclosed? (AC Sec. P40.169)  

19. Have postemployment and postretirement benefits, other than pensions, been properly disclosed? (AC Sec. P32 and P40)  

20. Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)  

21. If a quasi-reorganization or corporate readjustment has occurred, has the proper accounting been applied and is the new retained earnings account dated? (AC Sec. Q15)  

* 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.
22. If the entity is or has been a “development stage enterprise,” are adequate disclosures made? (AC Sec. De4.105-.109)

23. Do the financial statements, where required, include appropriate presentations of futures contracts? (AC Sec. F80)

**Balance Statement**

24. Is the accounting appropriate and are the disclosures adequate regarding:
   
a) Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)

b) Valuation allowances? (AC Sec. V18)

c) Restricted cash, including compensating balances? (AC Secs. B05.107 and C59.120)

d) Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale, and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholders’ equity? (AC Sec. I 80.103-.110)

e) Accounts and Notes Receivable—
   
   (i) Loans and related origination fees? (AC Sec. L20.104-.106 and .120)

   (ii) Effective interest rates which do not reflect market rates? (AC Sec. I 69.109)

   (iii) Effects of troubled debt restructurings? (AC Sec. D22.108, .121, and .136-.137)

   (iv) Other receivables?

f) 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 investments in loans for which impairment has been recognized, the total allowance for credit losses related to those impaired loans, the activity in the allowance for credit losses account, and creditor’s income recognition policy disclosed? (AC Sec. I 08.118)

g) Inventories? (AC Secs. B05.105 and I 78)

h) Investments accounted for under the equity method? (AC Secs. I 82.109-.110)

i) Property and equipment, including accounting for assets of discontinued operations, and capitalized interest? (AC Secs. D40.105, I 13.108, I 27 and I 67)

j) Sales-type, direct financing, leveraged, and operating leases of lessors? (AC Sec. L10.119 and .143-.149)

k) Other assets, including intangible assets, unamortized computer software costs, deferred tax assets, and deferred charges? (AC Secs. I 60, Co 2.102-.110, and I 27.140 and .142-.143)

l) Pledged assets? (AC Sec. C59.120)

---

* 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.
m) 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 with the amount owed by the other party, (3) the reporting party intends to set off, and (4) the right to set off is enforceable at law? (AC Sec. B10 and .101A)

n) Current liabilities? (AC Sec. B0 5.108-.109 and .118)

o) Short-term liabilities expected to be refinanced? (AC Sec. B0 5.117 and .138-.139)

p) Notes payable and other debt—
   (i) Maturities and rates? (AC Sec. C32.105)
   (ii) Other terms and covenants? (AC Sec. C59.120)
   (iii) Effect of interest rates that do not reflect market rates? (AC Sec. I 69)
   (iv) Effect of troubled debt restructurings? (AC Sec. D22.121)
   (v) Effect of early extinguishment of debt? (AC Sec. D14 and I 17.104)
   (vi) Maturities and sinking fund requirements for the next five years? (AC Sec. C32.105)

q) Capital leases of lessees? (AC Sec. L10.106 and .112)

r) Other liabilities and deferred credits, including classification of deferred tax liabilities, employees’ compensation for future absences, and special termination benefits to employees and deferred revenue? (AC Secs. C44.104 and .108, and I 27.104)

s) Capital stock (number of shares authorized, issued and outstanding, par or stated value per share, rights and preferences of various classes)?

t) Treasury stock? (AC Sec. C23)

u) Stock option and stock purchase plans? (AC Sec. C47)

v) Stock subscriptions receivable? (EITF 85-1)

w) Retained earnings, including appropriations thereof and restrictions on dividends? (AC Secs. C59.120 and R70.103)

x) Changes in stockholders’ equity? (AC Secs. C0 8.112, A35.103 and .105-.107)

y) Redemption requirements on capital stock for the next five years? (AC C32.105)

---

**Income Statement**

25. Are the important components of the income statement separately disclosed?

26. Is the accounting appropriate and are the disclosures adequate regarding:
   a) Method of income recognition, where appropriate; for example: long-term contracts and real estate transactions? (AC Secs. R10, C04.110 and C05)
b) Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses? (AC Sec. I 80)  

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</thead>
</table>

c) Application of the equity method? (AC Sec. I 82.109)  

d) Research and development costs? (AC Sec. R50)  

e) Computer software costs? (AC Sec. Co2.110)  

f) Capitalization of interest costs? (AC Sec. I 67)  

g) Discount or premium on notes receivable or payable? (AC Sec. I 69.108-.109)  

h) Depreciation? (AC Sec. D40.105)  

i) Compensatory stock issuance plan? (AC Sec. C47)  

j) Deferred compensation agreements? (AC Sec. C38)  

k) Sales transactions in which the buyer has a right to return the product? (AC Sec. R75.107-.109)  

l) Product financing arrangements? (AC Sec. D18.106-.107)  

m) Operating leases and rent expense of lessees? (AC Sec. L10.111-.112)  

n) Income taxes:  

   (i) The types of temporary differences that cause significant portions of a deferred tax liability or asset? (AC Sec. I 27.140-.142)  

   (ii) Significant components of income tax expense, including the current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants that reduce income tax expense, the benefits of operating loss carryforwards, and adjustments due to changes in tax laws, rates, and tax status? (AC Sec. I 27.144)  

   (iii) 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 needs to be disclosed.) (AC Sec. I 27.146)  

   (iv) Amounts and expiration dates of operating loss and tax credit carryforwards for financial reporting and tax purposes? (AC Sec. I 27.146)  

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
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</table>

o) Discontinued operations? (AC Sec. I 13)  

p) Extraordinary items? (AC Sec. I 17)  

q) Unusual or infrequent items, but not both? (AC Sec. I 22)  

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.</th>
</tr>
</thead>
</table>

* 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.
<table>
<thead>
<tr>
<th>Statement of Cash Flows</th>
<th>N/A*</th>
<th>YES</th>
<th>NO</th>
<th>REF.'**</th>
</tr>
</thead>
<tbody>
<tr>
<td>27. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>28. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)</td>
<td></td>
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<tr>
<td>29. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amount of cash and cash equivalent agree with the amounts on the balance sheet? (AC Sec. C25.124)</td>
<td></td>
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<tr>
<td>30. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.124)</td>
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<tr>
<td>31. Are noncash investing and financing activities disclosed? (AC Sec. C25.134)</td>
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<tr>
<td>32. If the indirect method of reporting net cash flows from operating activities was used were the amounts of interest and income taxes paid disclosed? (AC Sec. C25.127)</td>
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<tr>
<td>33. Are the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-.111A)</td>
<td></td>
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</tr>
<tr>
<td>34. Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I 80.117)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
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<tr>
<td>35. If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format, statements, and disclosures consistent with the guide? (AU Sec. 210.04)</td>
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<tr>
<td><strong>Summary</strong></td>
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<tr>
<td>36. Does it appear that disclosures in the financial statements are reasonably adequate?</td>
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</tbody>
</table>

*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.

AICPA Peer Review Program Manual
EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

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.
<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

AICPA Peer Review Program Manual

PRP § 8300.06
REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS TO QUESTION 1. **BE SPECIFIC.**

1. Based on your reading of the financial statements and accountant's report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:
   a. The financial statements did not conform with generally accepted accounting principles (or, where applicable, a comprehensive basis of accounting other than GAAP) in all material respects?  
      YES____  NO____
   b. The report issued by the firm did not conform with professional standards?  
      YES____  NO____

EXPLAIN BELOW THE REASONS FOR ANY "NO" ANSWERS TO QUESTION 2.

2. Have you prepared a "Matter for Further Consideration" form for each item that, in your opinion, might affect the report on the off-site peer review or that should be communicated to the reviewed firm as a matter that may require corrective action?  
   YES____  NO____
## AICPA PEER REVIEW PROGRAM

### OFF-SITE PEER REVIEWS—COMPILATIONS THAT OMIT SUBSTANTIALLY ALL DISCLOSURES

<table>
<thead>
<tr>
<th>Engagement Code No.:</th>
<th>Reviewer:</th>
<th>Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### A. Accountant’s Report

1. Is the report dated in conformity with the requirements of professional standards? (AR Sec. 100.15)  
   - N/A*  YES  NO  REF.**

2. Does the report adequately disclose all required matters and does it contain the elements required by professional standards, including appropriate language describing any modification from professional standards, if appropriate? (AR Secs. 100.14-.18 and .39-.41)  
   - N/A*  YES  NO  REF.**

3. Does the report cover all periods for which financial statements are presented? (AR Sec. 200.02)  
   - N/A*  YES  NO  REF.**

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.**

5. If supplementary information accompanies the basic financial statements, does the accountant describe in the report the degree of responsibility, if any, the accountant is taking? (AR Sec. 100.43)  
   - N/A*  YES  NO  REF.**

6. Does each page of financial statements that have been compiled include a reference to the accountants’ report? (AR Sec. 100.16)  
   - N/A*  YES  NO  REF.**

#### B. Financial Statements

**General**

1. Are the financial statements suitably titled? (AU Sec. 623.07)  
   - N/A*  YES  NO  REF.**

2. Do the financial statements appear to be free of material error? (AR Sec. 100.13)  
   - N/A*  YES  NO  REF.**

3. Is the accounting appropriate for accounting changes? (AC Sec. A06)  
   - N/A*  YES  NO  REF.**

4. Are loss contingencies accrued as appropriate? (AC Sec. C59)  
   - N/A*  YES  NO  REF.**

5. Are the financial statements adjusted for significant subsequent events? (AU Sec. 560)  
   - N/A*  YES  NO  REF.**

6. Have postemployment and postretirement benefits, other than pensions, been properly accounted for? (AC Secs. P32 and P40)  
   - N/A*  YES  NO  REF.**

7. Are adjustments of financial statements for prior periods appropriate? (AC Sec. A35)  
   - 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.
### Balance Sheet

8. Is the presentation appropriate regarding:

<table>
<thead>
<tr>
<th></th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Segregation of assets and liabilities, if applicable, into current and noncurrent classifications? (AC Sec. B05)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Valuation allowances? (AC Sec. V18)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Classification of debt and equity securities as held-to-maturity (debt securities only), trading, or available-for-sale and presentation of unrealized holding gains and losses on available-for-sale securities in a separate component of shareholder’s equity? (AC Sec. I 80.103-.110)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Effects of troubled debt restructurings? (AC Sec. D22)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(e) Are operating and capital leases properly accounted for? (AC Sec. 1 L 10)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(f) Other assets, including deferred charges?</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(g) Maturities on notes payable and other debt? (AC Sec. C32.105)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(h) Other liabilities including compensation for future absences? (AC Sec. C44.104-.108)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Treasury stock? (AC Sec. C23)</td>
<td></td>
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</tr>
</tbody>
</table>

### Income Statement

9. Are the important components of the income statement separately stated?

10. Is the presentation appropriate regarding:

<table>
<thead>
<tr>
<th></th>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Method of income recognition, for example: long-term contracts and real estate transactions? (AC Sec. R10, Co4 and Co5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Realized gains and losses and unrealized holding gains and losses for changes in fair value and transfers between categories of investments and losses presented in accordance with the statement? (AC Sec. I 80)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Application of the equity method? (AC Sec. I82.109)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Depreciation? (AC Sec. D40)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Deferred compensation agreements? (AC Sec. C38)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) Accounting for income taxes? (AC Sec. 127)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g) Discontinued operations? (AC Sec. I13)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(h) Extraordinary items? (AC Sec. I17)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Unusual or infrequent items, but not both? (AC Sec. I22)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Statement of Cash Flows

11. Is a statement of cash flows presented for each period for which results of operations are provided? (AC Sec. C25.101)

12. Does it report cash provided or used by investing, financing and operating activities? (AC Sec. C25.112-.124)

---

* The N/A column should be used when the item either does not exist or is not material.
** All "no" answers must be explained on the pages provided at the end of this checklist.
13. Does it report the net effect of cash flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents and do the amounts of cash and cash equivalents agree with amounts on the balance sheet? (AC Sec. C25.124)

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Does it provide a reconciliation between net income and net cash flow from operating activities? (AC Sec. C25.126)

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Are the components of the cash flow statement shown at “gross” and not “net” amounts? (AC Sec. C25.109-111A)

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

16. Are cash flows from purchases, sales, and maturities of available-for-sale securities and held-to-maturity securities classified as cash flows from investing activities and reported gross for each security classification and are cash flows from purchases, sales, and maturities of trading securities classified as cash flows from operating activities? (AC Sec. I 80.117)

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other

17. If the industry in which the client is operating is covered by an AICPA audit and accounting guide, are the format and statements consistent with the guide?

<table>
<thead>
<tr>
<th>N/A</th>
<th>YES</th>
<th>NO</th>
<th>REF.**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

* The N/A column should be used when the item either does not exist or is not material.

** All “no” answers must be explained on the pages provided at the end of this checklist.
EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers for which an MFC form was not generated or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement owner.

<table>
<thead>
<tr>
<th>Page Number</th>
<th>Question Number</th>
<th>Explanatory Comments</th>
<th>Disposition of Comments</th>
</tr>
</thead>
</table>

* 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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REVIEWER'S CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY “YES” ANSWERS TO QUESTION 1. BE SPECIFIC.

1. Based on your reading of the financial statements and accountant’s report for this engagement, together with the information and representations provided by the firm, did anything come to your attention that caused you to believe that:
   a. The financial statements did not appear to be appropriate in form and free from obvious material errors in application of accounting principles? YES____ NO____
   b. The report issued by the firm did not conform with professional standards? YES____ NO____

EXPLAIN BELOW THE REASONS FOR ANY “NO” ANSWERS TO QUESTION 2.

2. Have you prepared a “Matter for Further Consideration” form for each item that, in your opinion, might affect the report on the off-site peer review or that should be communicated to the reviewed firm as a matter that may require corrective action? \(^1\)
   YES____ NO____

\(^1\) Answer “yes” to this question if no MFCs were deemed necessary.

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PRP Section 8400

Reviewer’s Checklist for Review of Compliance With the PCPS Membership Requirements

.01 Members of the private companies practice section of the AICPA Division for CPA Firms (PCPS) are required to comply with certain membership requirements.

.02 This section of the manual contains a checklist for testing a firm’s compliance with the PCPS membership requirements. Testing of compliance with the membership requirements is required on off-site peer reviews of members of the PCPS. An additional statement is included in the off-site peer review report expressing limited assurance that the firm is in compliance with the membership requirements in all material respects and, if not, a description of the reasons.
Off-Site Peer Review

Checklist for Review of a Firm’s Compliance With the Membership Requirements of the Private Companies Practice Section

<table>
<thead>
<tr>
<th>Firm</th>
<th>Period Ending</th>
</tr>
</thead>
</table>

### Procedures

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?

   - Yes
   - No
   - Comments

2. Has the firm paid its dues to the Section for the current year?

   - Yes
   - No
   - Comments

3. Has the firm filed its most recent annual report?

   - Yes
   - No
   - Comments

4. Does the firm’s form or organization and name comply with Rule 505 of the Code of Professional Conduct?

   - Yes
   - No
   - Comments

5. Are all of the owners of the firm that are eligible for AICPA membership members of the AICPA?

   - Yes
   - No
   - Comments

Signature: ____________________________________________

Date: ____________________________________________

[The next page is 8501.]
PRP Section 8500

Instructions for Use of Matter for Further Consideration Forms—Off-Site Peer Reviews

.01 The reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of facts from the reviewed firm.

.02 Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.

.03 The reviewer may wish to obtain the engagement owner's signature on matters that will be the subject of a qualified report.
MATTER FOR FURTHER CONSIDERATION—OFF-SITE PEER REVIEWS

Engagement ____________________________
No. ______________________________
Checklist page _______________________
Question ___________________________

REVIEWER'S DESCRIPTION OF MATTER

REVIEWED FIRM AGREES WITH THE REVIEWER’S DESCRIPTION?  YES ____  NO ____

REVIEWED FIRM’S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER’S ADDITIONAL COMMENTS

INCLUDED IN LETTER OF COMMENTS?  YES ____  NO ____
If “No,” explain:

Signatures ____________________________  Dates _____________________________

Engagement Owner ____________________________  _____________________________
Reviewer _________________________________  _____________________________

[The next page is 8601.]
PRP Section 8600

*Engagement Statistics Data Sheet—Off-Site Peer Reviews*

.01 The reviewer should prepare an off-site engagement statistics data sheet for the reviewed firm.
## OFF-SITE ENGAGEMENT STATISTICS DATA SHEET
(To Be Completed On All Reviews)

### I. Engagement Statistics

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Total No. Reviewed</th>
<th>Total No. Substandard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### REASON CODES

- Substandard Engagement Reason Codes
  - GAP Non-GAAP
  - SAR Non-SSARS

### ACTION CODES

- Substandard Engagement Action Codes
  1. Report and/or financial statements recalled, revised and reissued
  2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)
  3. Omitted procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)
  4. Cause of independence impairment eliminated
  5. Unable to apply omitted procedures
  6. Notified parties that no reliance should be placed on the report issued

### II. Reasons for Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### III. Actions To Be Taken on Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Action Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### IV. Engagements Excluded from Review

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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</tbody>
</table>

### EXCLUDED ENGAGEMENT REASON CODES

1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

---

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<td>General  .01-.07</td>
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<td>Independence Requirements .08-.09</td>
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<td>Plans of Administration .10-.12</td>
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<td>Appendixes</td>
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<td>A. Examples of Association Quality Control Materials .16</td>
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<tr>
<td></td>
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</tr>
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<td></td>
<td>Reporting on Association Administrative Reviews .07-.18</td>
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<tr>
<td></td>
<td>The Review Team's Report .07</td>
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<td>Unqualified Report .08-.09</td>
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<td>Other Types of Reports .10-.11</td>
</tr>
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<td></td>
<td>Letter of Comments .12-.16</td>
</tr>
<tr>
<td></td>
<td>Letter of Response .17-.18</td>
</tr>
<tr>
<td></td>
<td>Appendixes</td>
</tr>
<tr>
<td></td>
<td>A. Program for Monitoring Associations of CPA Firms Authorized to Arrange and Carry Out On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program .19</td>
</tr>
<tr>
<td></td>
<td>B. Sample Unqualified Report .20</td>
</tr>
<tr>
<td></td>
<td>C. Sample Letter of Comments .21</td>
</tr>
</tbody>
</table>

[The next page is 9101.]
PRP Section 9100

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

**General**

.01 An association of CPA firms may assist its members in arranging and carrying out peer reviews of firms enrolled in the AICPA peer review program, and of members of the private companies practice section, provided it receives the approval of the AICPA Peer Review Board.

.02 Reviews arranged by an association of CPA firms may be conducted by a team appointed by the association (an “association review”) or by a reviewing firm that is a member of the same association as the reviewed firm (a “firm-on-firm review”).

.03 A majority of the review team members on an association review, including the team captain, must be from association member firms.

.04 Associations of CPA firms wanting to arrange peer reviews of their members must establish policies and procedures to ensure that the reviews are carried out in a manner that is consistent with the administrative policies established and the Standards for Performing and Reporting on Peer Reviews.

.05 An association may not form teams to perform peer reviews of non-association members.

.06 Results of reviews arranged by associations of CPA firms will be evaluated by the state CPA society administering the review.

.07 Formation of associations of CPA firms for the express purpose of arranging peer reviews is discouraged.

**Independence Requirements**

.08 An association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms. (For purposes of this requirement “professional services” include accounting, tax, personal financial planning, litigation support services and the professional services for which standards are promulgated by bodies designated by AICPA Council, such as Statements on Auditing Standards and Statement on Standards for Accountants’ Services on Prospective Financial Information.)

b. The association does not engage in any of the advertising or solicitation activities that are permitted with respect to member firms except that an association may respond to inquiries and may prepare brochures that firms may use to obtain professional engagements. (Member firms may solicit or advertise to obtain professional engagements in accordance with Rule 502 of the AICPA Code of Professional Conduct.)

c. The association shall not warrant or make public representations regarding the quality of professional services performed by its member firms. However, member firms may independently publicize their membership in the association.

d. The association shall have an independent, triennial review of its association quality control materials. (See Appendix A for the definition and examples of such materials.) The initial review of association quality control materials should be performed prior to the association carrying out any reviews (whether on-site or off-site) of its member firms. See PRP § 12,100, Standards for Performing and Reporting on
Guidelines for Involvement by Associations of CPA Firms in the Peer Review Program

Reviews of Quality Control Materials, or in the case of other types of materials, PRP § 12,200, Guidelines for Review of Continuing Professional Education Programs.

e. Member firms of the association shall not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)

f. Referral or participating work among member firms shall be arranged directly by the firms involved.

g. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

.09 The association should confirm that it conforms with the aforementioned independence criteria prior to commencing peer reviews and at the beginning of each subsequent year in which the association desires to be authorized to administer peer reviews.

Plans of Administration

.10 The association may ask for authorization to arrange and carry out the reviews of its members, under the supervision of the participating state CPA society, by submitting an administrative plan to the AICPA Peer Review Board which covers such matters as the following:

a. Developing and maintaining a pool of qualified reviewers in the AICPA reviewers’ data bank.

b. Selecting the reviewers.

c. Training and evaluating reviewers.

d. Determining that reviews are conducted in accordance with AICPA Standards for Performing and Reporting on Peer Reviews.

e. Handling of questions raised by reviewers and firms.

f. Resolving disputes that may arise between a reviewed firm and the association reviewers, and reporting unresolved disputes to the entity administering the review.

.11 To satisfy the above requirement, an association of CPA firms may either submit (a) a brief questionnaire developed by the AICPA Peer Review Board or (b) a more detailed plan of administration which, at minimum, should address each of the items discussed in the questionnaire. Appendix B includes a copy of the association questionnaire developed for arranging and carrying out peer reviews in 1995.

.12 The degree of involvement and the scope of activity of an association of CPA firms may be changed annually by the AICPA or the association of CPA firms.

Administrative Reviews

.13 An association of CPA firms that is authorized to arrange peer reviews shall submit triennially to an independent review of its administrative procedures and to a review of any association quality control materials.

.14 These reviews may be performed concurrently; however, separate reports should be issued. The reviewer shall possess the same qualifications as those required of team captains on on-site peer reviews.

.15 The initial administrative review should be performed during the third year that the association is involved in arranging and carrying out peer reviews under the peer review program. See PRP § 9200, Guidelines for Performing Administrative Reviews of Associations of CPA Firms for suggested review procedures for administrative reviews of authorized associations. These procedures are general in nature and may not be appropriate for certain associations. Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

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.16 Appendix A

Examples of Association Quality Control Materials

Definition

1. Association quality control materials are quality control materials that are expected to be used as an integral part of the quality control system of a firm that is a member of the association and that are either—
   a. Prepared by the association or a member firm(s) for use by its member firms.
   b. Composed of materials or programs provided by a third party and tailored for or developed for the association or its member firms.

Examples

Example 1—The XYZ Company is contracted to present to member firms of an association a course on EDP auditing that is tailored to the needs of its members. Such a course would constitute an association quality control material because the course was tailored to the individual association needs.

Example 2—The XYZ Company is contracted to present to newly hired assistants of association member firms a course on working paper techniques. This course is identical to the course presented to other groups and is not modified or tailored for the association. Such a course would not be considered an association quality control material.

Example 3—An accounting firm that is not a member of the association has agreed to supply its own accounting and auditing manual to all the association member firms. Such a manual, since it was not tailored or developed for the association and its member firms, would not constitute an association quality control material.
### AICPA Peer Review Programs

#### Association of CPA Firms Questionnaire for the Arrangement of On-Site and Off-Site Peer Reviews in 1995

**INFORMATION TO BE PROVIDED BY ALL ASSOCIATIONS WISHING TO ARRANGE PEER REVIEWS**

#### General Information

1. Name and address of the association of CPA firms

   ____________________________  ____________________________  ____________________________

2. Name and telephone number of the executive director

   Name
   Telephone Number

3. Name and telephone number of the person who will arrange peer reviews at the association’s office

   Name
   Telephone Number

4. Name and telephone number of the person(s), if any, who will perform the “technical review” of the peer review materials.

   Name
   Telephone Number

5. Does the association agree to comply with the standards for performing and reporting on peer reviews established by the SECPS Peer Review Committee and/or the AICPA Peer Review Board, as applicable, and with the related administrative procedures?  Yes □  No □

6. Has the association established a peer review committee to oversee the administration of the peer reviews of its member firms?  Yes □  No □  If yes, please attach a listing of the individuals appointed to that committee and the charge of that committee.

7. What types of reviews does the association wish to arrange under the peer review program:

<table>
<thead>
<tr>
<th>On-site</th>
<th>Off-site</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECPs</td>
<td>PRP*</td>
</tr>
<tr>
<td>a. Team appointed reviews</td>
<td></td>
</tr>
<tr>
<td>b. Firm-on-firm reviews</td>
<td></td>
</tr>
</tbody>
</table>

8. Approximately how many firms in the association plan to have a peer review during the year?  On-site  ______  Off-site  ______

9. How does the association plan to deal with questions concerning the following types of matters (please place an “x” under the body that reviewers and firms should use as their primary source):

<table>
<thead>
<tr>
<th>Association Personnel</th>
<th>Association Committee Members</th>
<th>AICPA</th>
<th>Applicable State CPA Society</th>
</tr>
</thead>
</table>
   a. Technical accounting and auditing matters? | | | |
   b. Ethics matters? | | | |
   c. Peer review matters? | | | |

*PRP = AICPA Peer Review Program  SECPs = SECPS Peer Review Program

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

10. How will disagreements that arise between a reviewed firm and the association reviewers be resolved?

____________________________________________________________________________________________________

____________________________________________________________________________________________________

____________________________________________________________________________________________________

11. Does the association agree to promptly report any unresolved disputes to the entity administering the review?  
Yes ☐ No ☐

12. Does the association agree to retain the records on reviews that must be maintained by the association, including the working papers on reviews performed by review teams appointed by the association, as long as required under the rules established by the applicable peer review program?  Yes ☐ No ☐ If these records will not be kept at the association’s main office, please indicate where they will be kept.  
____________________________________________________________________________________________________

____________________________________________________________________________________________________

____________________________________________________________________________________________________

13. Does the association agree to submit the peer review working papers to the entity administering the review and to appropriate oversight bodies?  Yes ☐ No ☐

Independence Requirements

14. Does the association, as distinct from its member firms, perform any professional services other than those it provides to its member firms?  Yes ☐ No ☐

15. Does the association engage in any advertising or solicitation activities with respect to its member firms other than preparing general brochures that firms may use to obtain professional engagements?  Yes ☐ No ☐

16. Does the association warrant or make public representations regarding the quality of professional services performed by its member firms?  Yes ☐ No ☐ [However, member firms may independently publicize their membership in the association.]

17. Do the member firms of the association share directly or indirectly, or participate in, the profits of each other?  Yes ☐ No ☐ (Correspondent fees are considered revenue, not profit participation.)

18. Does the association arrange referral or participating work among member firms?  Yes ☐ No ☐

19. Does the association exercise any direct or indirect management control over the professional or administrative functions of its member firms?  Yes ☐ No ☐

20. If the answer was “yes” to questions 14, 15, 16, 17, 18, or 19, please briefly explain.  
____________________________________________________________________________________________________

____________________________________________________________________________________________________

____________________________________________________________________________________________________

21. Does the association obtain annual written confirmations regarding correspondent fees from its member firms?  Yes ☐ No ☐ If the answer is no, please explain how the association monitors correspondent fees.  
____________________________________________________________________________________________________

____________________________________________________________________________________________________

____________________________________________________________________________________________________
### Association Quality Control Materials

22. Does the association have any materials that could be considered association quality control materials?  Yes ☐  No ☐
   If no, please skip to Question 24.

23. If the answer to 22 is yes, has the association had an independent review of those association quality control materials?
   Yes ☐  No ☐
   a. If the answer is yes, please indicate the date of the last review and attach a copy of the report issued ____________
   b. If the answer is no, please indicate when the review will take place. ____________

### Association Administrative Review

24. Associations forming review teams and/or having association quality control materials are required to have an independent
department of their administrative procedures once every three years. Has the association had such a review?  Yes ☐  No ☐
   a. If the answer is yes, please indicate the date of the last review and attach a copy of the report issued ____________
   b. If the answer is no, please indicate why such a review has not taken place ____________

### INFORMATION TO BE PROVIDED BY ASSOCIATIONS THAT WISH TO SELECT A REVIEW TEAM TO PERFORM A PEER REVIEW. IF YOUR ASSOCIATION ONLY WISHES TO ARRANGE FOR AN ASSOCIATION MEMBER FIRM TO REVIEW ANOTHER ASSOCIATION MEMBER FIRM, PLEASE SKIP TO QUESTION 31.

25. Since the resumes of all individuals expected to serve on a peer review team must be included in the AICPA master bank of
reviewers, will the association agree to submit copies of the reviewer resume forms for each individual that it may assign to
a peer review team to the AICPA for inclusion in the AICPA master bank of reviewers?  Yes ☐  No ☐

26. Will the association verify that any correspondent work is not material to a reviewed firm or a firm with whom a member of the
review team is associated?  Yes ☐  No ☐

27. Will the association verify that the reviewers possess the appropriate qualifications for service on the review team for which
they have been selected?  Yes ☐  No ☐

28. Does the association agree to ensure that the applicable administering entities—the AICPA Peer Review Division or participat-
ing state CPA societies—are advised of the arrangements made for peer reviews prior to the commencement of the
reviews, including the names of the reviewers and the dates the reviews will take place, and not to change those arrangements
unless authorized by the administering entity?  Yes ☐  No ☐

29. Has the association established procedures for assuring that reviews performed by association formed review teams are performed
and reported on in accordance with the applicable peer review programs’ standards and guidelines?  Yes ☐  No ☐
   If the answer is yes, do these procedures include:
   a. Pre-issuance review of the peer review working papers?  Yes ☐  No ☐
   b. Pre-issuance review of the report and letter of comments?  Yes ☐  No ☐
   c. Review of the documentation of any consultation matters raised during the review?  Yes ☐  No ☐

30. Will the association monitor the reviews to ensure the peer review working papers and peer review documents are submitted
to the administering entities in accordance with the timing guidelines established by the applicable peer review program?  Yes ☐  No ☐
INFORMATION TO BE PROVIDED BY ASSOCIATIONS THAT WISH TO ARRANGE FOR AN ASSOCIATION MEMBER FIRM TO REVIEW ANOTHER ASSOCIATION MEMBER FIRM. IF YOUR ASSOCIATION DOES NOT WISH TO ARRANGE FOR SUCH REVIEWS, PLEASE SKIP TO QUESTION 32.

31. Will the association verify that any correspondent work is not material to the reviewed firm or the reviewing firm?
   Yes ☐ No ☐
   ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

32. Signature ___________________________________________ Date ______________________
    Title ___________________________________________________________________________
    ★ ★ ★

Please return this form to:
   Dale R. Atherton
   American Institute of Certified Public Accountants
   Peer Review Division
   Harborside Financial Center
   201 Plaza Three
   Jersey City, NJ 07311-3881
PRP Section 9200

Guidelines for Performing Administrative Reviews of Associations of CPA Firms

Introduction

.01 An association of CPA firms that is authorized to arrange and carry out on-site and/or off-site reviews under the AICPA peer review program is required to submit triennially to an independent review of its procedures for administering peer reviews and to a review of any association quality control materials. These reviews may be performed concurrently; however, separate reports should be issued.

.02 The objectives of the triennial administrative reviews are to evaluate—

a. Whether the procedures established by the association as outlined in its plan of administration are properly designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines for involvement by associations of CPA firms.

b. Whether the association's procedures are consistent with the current peer review standards and program guidelines.

c. Whether the association is complying with and appropriately documenting its compliance with those administrative procedures during the period under review.

.03 If an association is authorized to arrange and carry out peer reviews of members of the SEC practice section of the AICPA Division for CPA Firms and is required to undergo a triennial review of its administrative procedures in connection with that program, the administrative review performed for that section can satisfy the requirements for an administrative review under the AICPA peer review program, provided the review under the SECPS includes testing of administrative procedures pertaining to peer reviews under the AICPA peer review program.

Qualifications of Reviewers

.04 An association administrative review may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association administrative procedures may not be performed by a member of the association whose procedures are being reviewed. Furthermore, a review may not be performed by a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the review.

.05 A review team shall possess the same qualifications for on-site review teams as set forth in the paragraphs 3100.15-.21 of the Standards for Performing and Reporting on Peer Reviews sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer." In addition, associations requested to perform association administrative reviews must adhere to the guidelines contained in PRP § 9100, Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program.

Suggested Review Procedures

.06 Appendix A to this section, PRP § 9200.19, includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute "association quality control materials." Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.
Reporting on Association Administrative Reviews

The Review Team’s Report

.07 Within thirty days of the date of the exit conference, the association administrative review team should furnish the association with a written report and, if applicable, a letter of comments.

Unqualified Report

.08 An unqualified report issued by an association administrative review team shall contain the following:

a. A statement of the scope of the review

b. A statement that the review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program developed by the Peer Review Board of the American Institute of Certified Public Accountants and the AICPA peer review program’s Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program.

c. An opinion (without qualification) that the association has complied during the year reviewed with the guidelines established by the Board for associations authorized to arrange and carry out on-site and off-site peer reviews.

.09 An example of an unqualified report is included in Appendix B, PRP § 9200.20.

Other Types of Reports

.10 The following circumstances ordinarily would require the issuance of a qualified report, an adverse report, or a disclaimer:

a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.

b. The degree of compliance with the association’s policies and procedures were not sufficient to provide reasonable assurance that the association would conform with the Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program.

.11 In those instances in which the review team determines that a qualified or adverse report is required, all the reasons should be disclosed in the report and the review team should consult with the AICPA Peer Review Board or its designee prior to the issuance of that report.

Letter of Comments

.12 A letter of comments should be issued in conjunction with the administrative review to report matters that—

a. Resulted in a qualified or adverse report.

b. Would result in substantial improvement in the association’s compliance with the guidelines for involvement by associations of CPA firms in the AICPA peer review program.

.13 The letter of comments should include—

a. A reference to the report and, if applicable, an indication that the report was qualified or adverse.

b. A description of the purpose of the association administrative review.
Guidelines for Performing Administrative Reviews of Associations of CPA Firms

9203

c. A statement that the review was conducted in accordance with procedures established by the Peer Review Board of the American Institute of Certified Public Accountants.

d. A description of the limitations of the procedures used to arrange and carry out peer reviews.

e. The reviewer’s findings, including sufficient detail with respect to the findings so that the association can determine the actions it needs to take, if any, to correct the deficiencies noted.

f. A statement that the matters discussed in the letter were considered in determining the opinion expressed on the administrative review of the association.

.14 If any of the matters to be included in the letter were included in the letter issued in connection with the association’s previous administrative review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

.15 If a qualified report is issued, the letter must include a separate section on the matters that resulted in the qualification. This section would include an elaboration of the findings discussed in the qualifying paragraph of the report.

.16 Appendix C, PRP § 9200.21, illustrates how some of the foregoing matters may be covered in a letter of comments.

Letter of Response

.17 The association is required to respond in writing to the letter of comments. The response should be addressed to the Board and should describe the action(s) taken or planned with respect to each matter in the letter. If the association disagrees with one or more of the comments, its response should describe the reasons for such disagreement.

.18 When a letter of comments is issued along with a qualified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.
.19 Appendix A

Program for Monitoring Associations of CPA Firms Authorized to Arrange and Carry Out On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program

This program includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute “association quality control materials.” Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

SUGGESTED REVIEW PROCEDURES

I. PLANNING

Obtain the following documents from the AICPA Peer Review Division Staff.

a) The association’s most recent plan of administration.

b) The Peer Review Board’s letter accepting the association’s plan of administration.

c) The latest report on the review of the association’s quality control materials, the letter of comments, if any, and the association’s response thereto.

d) Summary information on peer reviews administered by the association, including number of reviews conducted and types of reports issued.

e) Any questions raised by the staff concerning the association’s compliance with the peer review standards.

II. TESTING

A. Independence

1. Based on reading the association’s charter, bylaws, publications, and independence confirmations on behalf of the association or its members, and on inquiry of the association’s executive director, determine that the association and its member firms are complying with the following criteria for independence:

   • The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms.

   • The association does not obtain or attempt to obtain professional engagements for its member firms. (This includes advertising for the purpose, expressed or implied, of obtaining professional engagements for its member firms. However, the association may respond to inquiries and prepare brochures that individual firms, not the association, may use to obtain professional engagements.)

   • The association does not warrant or make public representations regarding the quality of professional services performed by its member firms. (However, member firms may independently publicize their membership in the association.)

   • Member firms of the association do not share directly or indirectly, or participate in, the profits of each other. (Correspondent fees are considered revenue, not profit participation.)

   • Referral or participation work among member firms is arranged directly by the firms involved.
SUGGESTED REVIEW PROCEDURES

- The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

2. Evaluate whether the results of the above tests or inquiries are consistent with the information contained in the plan of administration submitted to the Peer Review Board.

B. Association Quality Control Materials

1. Inquire whether the association has identified any materials that constitute association quality control materials as defined in PRP §9100.16 of the AICPA Peer Review Program Manual.

2. Determine whether:
   a) A review of the system of quality control for the materials in B.1. above was conducted by an individual possessing the prerequisite qualifications.
   b) The report on the review identifies all the types of materials that comprise the association’s quality control materials.
   c) The report has been made available to member firms and their reviewers and relied upon during the performance of association-administered peer reviews.

3. If a letter of comments was issued in connection with the latest review, determine whether appropriate corrective action(s) have been taken.

4. Inquire whether significant changes have been made in the system for developing quality control materials since the last review. If so:
   a) Inquire whether the changes have been independently evaluated for appropriateness on a timely basis, whether there has been a test of the documentation evidencing compliance with the system, and whether a report has been issued.
   b) If the answer to 4a is “no,” evaluate the appropriateness of the reasons.
   c) Determine whether the changes in the quality control system have been reported in the updated plan(s) filed with the Board.

C. Plan of Administration and Its Annual Renewal

1. Determine whether all the amendments requested by the Board in its acceptance of the association’s most recent plan have been adopted.

2. Determine whether the plan and the association’s procedures have been appropriately amended on a timely basis to reflect any new requirements resulting from revisions in the peer review standards and guidelines since the most recent plan was filed.

3. Determine whether any new procedures adopted by the association since the Board’s acceptance of the current plan are consistent with the peer review standards and guidelines.

4. Determine whether the association has obtained confirmations from member firms concerning fees for correspondent work.

D. Qualifications for a Reviewer or a Reviewing Firm

Determine whether the qualifications for the reviewers or outlined in paragraphs 3100.15-3100.21 of the peer review standards have been met and whether appropriate procedures have been followed by the association to ensure that sufficient attention was given to the following requirements.

1. Establishing and maintaining a pool of qualified and trained reviewers.
SUGGESTED REVIEW PROCEDURES

2. Assigning competent and appropriate reviewers in relation to the specific needs of reviewed firms.  

3. Assigning a majority of the review team members, including the team captain, from association member firms.  

4. Evaluating the performance of the reviewers.  

5. Maintaining the reviewers' independence considering:
   a) The prohibition against reciprocal reviews.  
   b) The prohibition against material amounts of fees for correspondent work.  
   c) The independence and conflict of interest interpretations.

III. CONCLUSIONS

1. Based on the procedures performed:
   a) Are the administrative procedures appropriately designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines?  
   b) Are the procedures established by the association for administering peer reviews in conformity with the latest peer review standards and guidelines for involvement by associations of CPA firms?  
   c) Has the association complied with and appropriately documented its compliance with its procedures for administering the AICPA’s peer review program during the period under review?

2. Discuss your findings and conclusions with the officials of the association. (There is no need to prepare a formal memorandum unless there is a significant weakness.)  

3. Issue the report and letter of comments, if any, on the results of the review, to the association.  

4. Submit a copy of the report and letter of comments to the AICPA Peer Review Division along with all of the working papers on the review.
Sample Unqualified Report
[AICPA, state CPA society, or firm letterhead]

May 15, 19__

Executive Committee
XYZ Association

We have reviewed the procedures followed by XYZ Association during the year ended December 31, 19__, in arranging and carrying out [on-site and off-site]* peer reviews under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program and included tests of the association's compliance with the "Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program."

In our opinion, the XYZ Association has complied during the year ended December 31, 19__, with the guidelines established by the Board for associations authorized to arrange and carry out [on-site and off-site]* peer reviews.

John Doe, Team Captain
[or Name of Reviewing Firm]
Appendix C

Sample Letter of Comments
[AICPA, state CPA society, or firm letterhead]

May 15, 19__
[Date Should Correspond With the Date of the Report]

Executive Committee
XYZ Association

We have reviewed the procedures followed by XYZ Association during the year ended December 31, 19__, in arranging and carrying out [on-site and off-site] * peer reviews under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants and have issued our report thereon dated May 15, 19__. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting on your administrative procedures and your compliance with them. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Arrange On-Site and Off-Site Peer Reviews Under the AICPA Peer Review Program developed by the Peer Review Board. Our review would not necessarily disclose all weaknesses in your procedures or instances of noncompliance with them because our review was based on selective tests.

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

[Following would be a description of—]

- Matters that resulted in a qualified or adverse report.
- Matters that would result in substantial improvement in the association’s compliance with the guidelines for involvement by associations of CPA firms in the AICPA Peer Review Program.]

The foregoing matters were considered in determining our opinion set forth in our report dated May 15, 19__ and this letter does not change that report.

John Doe, Team Captain
[or Name of Reviewing Firm]

[The next page is 10,001.]

* Tailor as applicable.
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PRP Section 10,000

**Inspection Guidance**

**Introduction**

.01 Statement on Quality Control Standards No.1, *System of Quality Control for a CPA Firm,* (SQCS No. 1) requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The statement and related interpretations can be found in the *AICPA Professional Standards,* Vol. 2, QC section 10.

.02 SQCS No. 1 identifies nine elements of quality control and states that a firm shall consider each of these elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. The statement recognizes that the nature and extent of a firm's quality control 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 or, at a minimum, carefully supervised by persons who would qualify as reviewers under the standards governing the practice-monitoring program in which the firm is enrolled.

.11 Individuals assigned to the inspection team should be objective when performing their tasks. Although not a requirement, it is desirable, whenever possible, to assign individuals who were not otherwise involved in the performance of the engagements they are to inspect. A checklist that may be used when coordinating an inspection program is included in Appendix A.

.12 Depending on the size of a firm and the environmental factors previously discussed, a firm may wish to consider having someone from outside the firm perform the inspection rather than using internal personnel. Some firms have found this advantageous because the outsider can provide a fresh perspective and may be more objective when performing the various procedures. Unlike peer reviews, inspections may be performed on a reciprocal basis because independence is not an issue that must be considered.

.13 If a firm decides to use inspectors from outside the firm, it should consider the qualifications for inspectors discussed above in making the selection of the individual(s). In such circumstances, an owner of the firm should be given responsibility for coordinating the inspection efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

**Timing of the Inspection Program**

.14 The inspection program should be timely and it should cover each year between peer reviews. (A firm may elect to have its peer review substitute for an inspection for the year covered by the review.) Timeliness is important so that any necessary corrective action, especially actions that affect the performance of a subsequent audit, review or compilation, can be implemented before a deficiency, if one took place, is repeated.
.15 Most firms carry out an inspection as if it were a mini-peer review. The review of the firm’s compliance with its quality control policies and procedures and review on a post-issuance basis of selected engagements are performed at a fixed time during the year. Some firms, however, prefer to coordinate the review of engagements more closely with other procedures they might have established. Flexibility in timing is entirely appropriate, subject to these two guidelines:

a. The supervisory review of the working papers, files and reports carried out by the engagement partner before an audit, review or compilation report is issued never qualifies as an inspection procedure.

b. A firm needs to summarize and take action on inspection findings on engagements on a timely basis. Therefore, if a firm reviews selected or all engagements over a period of time findings should be summarized periodically, not just once a year. This summarization should be based on review notes or point sheets prepared for that purpose, not just on memory.

.16 Firms that inspect engagements at other than one time during the year often do so as part of an ongoing procedure for carrying out an additional preissuance review of the report, financial statements, and working papers by someone not associated with the engagement, such as a second partner or a report review department. (See AICPA Professional Standards, Vol. 2, QC Section 10-1.18.)

.17 Some firms may choose to perform an inspection of selected engagements prior to beginning engagement planning. It is particularly important to be certain that the review of the engagement is the equivalent to the review that would have been performed as an inspection procedure after issuance of the report, not just the review that is made under SAS No. 22, “Planning and Supervision,” and that the inspection findings are taken into account in planning and carrying out the subsequent engagement.

How to Perform the Inspection

.18 The scope of an inspection should be similar to that of a peer review. Sufficient testing should be performed to allow the inspectors to evaluate whether the firm is effectively applying its procedures as they relate to the other eight elements of quality control.

Review of Compliance with Policies and Procedures

.19 An inspection should address, to the extent applicable, each of the other eight elements of quality control. Firms may choose to address many of the policies and procedures relating to elements such as supervision, consultation, professional development, advancement, assigning personnel to engagements, acceptance and continuance of clients, and hiring during the review of engagements.

.20 Appendix B includes suggested procedures to test compliance with the firm’s quality control policies and procedures.

.21 The general procedures to be performed for each of the applicable elements of quality control include:

a. A review of the firm’s policies and procedures and an evaluation of their continuing appropriateness.

b. A review of the administrative files and interviews of appropriate individuals to verify compliance with and understanding of the firm’s policies and procedures.

c. Testing of compliance with the policies and procedures within the firm’s system and/or on selected engagements.

Review of Engagements

.22 Firms ordinarily place considerable emphasis during an inspection on the review of engagements. In selecting engagements, a firm may find it helpful to consider the guidelines contained in the standards governing
the practice monitoring program in which it is enrolled. These standards provide that the selection should include a reasonable cross section of the firm’s auditing and accounting practice.

.23 An inspection should include work performed by a cross section of the firm’s personnel involved in the accounting and auditing function. In addition, the selection of engagements to be reviewed should take into consideration—

a. Industry concentrations
b. Large, complex, and high risk engagements
c. Governmental engagements
d. Initial engagements
e. Engagements with a significant public interest (such as SEC engagements and audits conducted pursuant to the Employee Retirement Income Security Act)
f. Engagements that have not previously been inspected or reviewed.

.24 As a general rule, at least 5 to 10% of the firm’s accounting and auditing hours should be reviewed during the inspection. The engagements subject to review will be those with years ending during the period under review. However, if a more recent engagement has been performed, that engagement should be reviewed.

.25 The objectives of the review of engagements are to evaluate whether the firm is complying with its quality control policies and procedures and conforming with professional standards, including generally accepted accounting principles (GAAP), generally accepted auditing standards (GAAS), standards for accounting and review services (SSARS), standards for financial forecasts and projections, and standards for financial and compliance audits contained in governmental auditing standards (the “yellow book”). To achieve these objectives, the review should include a review of reports, financial statements, accompanying footnotes, related working papers, correspondence and, where appropriate, discussions with professional staff.

.26 The depth of review of working papers should be left to the judgment of the inspector(s). However, the review of working papers ordinarily should include a review of all “key areas” on an engagement. It does not need to be a review of every working paper. The key areas are the most critical sections in an engagement. Examples of some of the key areas for a manufacturing engagement would be inventory, accounts receivable, accounts payable, sales and cost of sales.

.27 In reviewing engagements, many people find it useful to use engagement review checklists, such as the ones developed by the AICPA for use on peer reviews. However, any other comprehensive reporting, disclosure, and working paper review checklists can be used. (See the section on “Alternative Approaches to Documenting an Inspection.”)

.28 Under the AICPA practice monitoring programs, checklists and supplements have been developed specifically for general audits, audits of governmental, not-for-profit, and banking entities, and compilation and review engagements. The engagement checklists may require modification for engagements involving other specialized industries, such as construction and insurance. Checklists and quality control system questionnaires are available in the AICPA Peer Review Program Manual and the SECPS peer review program manual.

.29 For each engagement reviewed, the inspector should evaluate whether anything came to the individual’s attention that caused the inspector to believe that—

a. The financial statements were not presented in all material respects in accordance with generally accepted accounting principles or another comprehensive basis of accounting, if applicable, or the report was appropriately modified.

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b. The firm did not have a reasonable basis under the applicable standards (GAAS, SSARS, or governmental auditing standards) for the report issued.

c. The report was not appropriate in the circumstances.

d. The documentation does not support the report issued.

e. The firm did not comply with its quality control policies and procedures.

.30 Should an inspector believe that the firm may have issued an inappropriate report on a client’s financial statements or omitted necessary procedures, the firm should investigate the matter and determine what action, if any, should be taken pursuant to AU sections 561 and 390 and AR Sections 9100.13-15 of the AICPA’s Professional Standards.

Other Review Procedures

.31 During an inspection, many firms test compliance with the membership requirements of the various organizations to which they or their members belong—the AICPA, state CPA societies, PCPS, and SECPS—even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm’s quality control policies and procedures and are tested during other phases of the inspection. For example, compliance with the AICPA’s and the Division for CPA Firms’ continuing professional education requirements (CPE) may be tested when the firm’s policies and procedures for professional development are inspected. Appendix C includes a program for testing compliance with certain of the Division for CPA Firms’ membership requirements.

Summarizing Inspection Findings

.32 At the conclusion of the various inspection procedures, each finding should be evaluated in conjunction with the other findings noted during the inspection for the implications to the firm’s quality control system as a whole. For example, on one engagement a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is made in next year’s financial statements. If the deficiency is noted on several engagements, corrective action also may be needed on a firm-wide basis to prevent the recurrence of these deficiencies.

.33 Regardless of when engagements are inspected, inspection findings should be summarized in a manner that enables a firm to best determine the necessary corrective actions. Some firms use the summary review engagement checklists from the peer review manual for summarizing engagement related inspection findings. Other firms scan the findings and summarize them informally; this is common when the number of engagements reviewed is small and/or the number of findings is minimal.

Reporting on Inspection Findings

.34 Appropriate documentation requirements should be established by each firm to demonstrate compliance with its policies and procedures for inspection (see the next section on “Alternative Approaches to Documenting an Inspection”). At a minimum, a report or memorandum should be prepared on the scope of the inspection, the inspection findings, and the recommendations of the inspectors. A sample report that a firm may use for this purpose has been developed and is included in Appendix D, or the firm may develop its own reporting format. For multi-office firms, consideration should be given to preparing a separate report for each office inspected.

Determining Necessary Corrective Actions

.35 Upon receipt of the inspection report, the owner(s) of the firm should evaluate what corrective actions, if any, should be taken in connection with the recommendations of the inspector(s). Corrective actions can include—
Inspection

a. Additional staff training in specific areas or industries.
b. Changes in quality control policies and procedures.
c. Updates or additions to technical manuals and practice aids.
d. More careful monitoring of compliance with the policies and procedures.
e. Appropriate corrective actions on specific engagement deficiencies.

.36 There should be a record of the corrective actions and improvements planned by the firm to address the findings and appropriate assignment of responsibility for implementing the recommendations.

Communicating Inspection Findings and Corrective Actions

.37 After the necessary corrective actions have been decided, the inspection findings and the changes being made as a result of those findings should be communicated orally or in writing to the owners and employees of the firm (if any).

Following Up on Planned Corrective Actions

.38 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to an effective inspection program. Within a reasonable period of time after the firm was scheduled to take the planned corrective actions, steps should be taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

Retention of Inspection Documents

.39 Firms should determine the period that detailed inspection working papers are to be retained. Retention may be necessary if the firm intends for the peer reviewer to place reliance on the inspection. (Typically, reviewers of smaller firms will place little or no reliance on the inspection due to scope requirements and cost/benefit considerations. If that is expected to be the case, it is recommended that detailed working papers be discarded after a summary or report has been prepared.) The inspection summary or report should be retained and available to the peer reviewers.

Alternative Approaches to Documenting an Inspection

.40 The size and nature of a firm and the environment in which it practices will affect the extent of documentation prepared regarding the inspection procedures, findings, and corrective actions. A formal or an informal documentation approach can be used.

.41 Under the formal approach to inspection documentation, inspector(s) will—

a. Complete the quality control compliance program in Appendix B or develop and complete other comprehensive program(s).
b. Complete comprehensive engagement review checklists, such as those used by peer reviewers while performing the review of reports, financial statements, footnotes and working papers on selected engagements.
c. Prepare summaries of findings on compliance tests and reviews of engagements.
d. Prepare an inspection report such as the one in Appendix D.

.42 Generally, the formal approach is preferable for all CPA firms regardless of size.

.43 Under the informal approach to inspection documentation, inspector(s) will—

PRP § 10,000.36 Copyright © 1995, American Institute of Certified Public Accountants, Inc.
a. Review compliance with its quality control policies and procedures without preparing or completing a quality control compliance program.

b. Review selected reports, financial statements, and working papers without formally completing comprehensive engagement review checklists such as those used by peer reviewers. (In these cases, the firm will usually make reference to such a checklist to make sure that all appropriate matters are considered.)

c. Keep notes (or summaries) reflecting the deficiencies noted during the performance of inspection procedures.

d. Prepare an inspection report such as the one in Appendix D.

.44 The informal approach has only been found to be effective for sole practitioners without professional staff and firms with very small accounting or auditing practices.

.45 Examples of the application of the approaches to the inspection and the documentation thereof are included in Examples 1 through 3 at the end of this document along with a description of the environmental factors influencing the inspection program.

Relationship of Consulting Reviews to Inspections

.46 Some firms may have a consulting review before their initial peer review. Consulting reviews are confidential, “trial-run” reviews during which a reviewer, who has experience relevant to the firm undergoing the review, will visit the firm, usually for one day, to identify strengths and/or weaknesses and give the firm advice on how to prepare for the review. The review includes a cursory review of the working papers, financial statements, and reports prepared by the firm.

.47 A firm planning to have a consulting review may wish to consider whether the consulting review it plans to have should be expanded to satisfy the firm’s annual inspection requirement for the year. Depending on the size of the firm, an inspection may be performed instead of a consulting review for only a little more money.

Benefits of an Inspection

.48 An inspection can assure a firm that it has an effective quality control system in place and that the firm’s quality control system is being complied with. It also ensures that the firm will have the chance to make improvements or changes in its quality control system on a timely basis. Oftentimes, the professionals know the strengths and weaknesses of their firm. However, time does not always permit the firm to focus on these areas and make necessary changes. An inspection allows the firm to allocate time at least once a year to focus on its strengths and weaknesses with the intent of improving the overall quality of the firm and the services it provides.
Appendix A

Checklist for Coordinating an Inspection Program

1. Determine who will coordinate the inspection program for the firm. __________ __________

2. Determine who will perform the inspection. __________ __________

3. Establish the approach and timetable for performing the inspection procedures. __________ __________

4. Determine forms and checklists to be used during the inspection and the extent of documentation required. __________ __________

5. Make a selection of engagements for review. __________ __________

6. Review administrative files for compliance with the firm’s quality control policies and procedures. __________ __________

7. Review the selected engagements. __________ __________

8. Summarize the inspection findings and determine what corrective actions should be taken. __________ __________

9. Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions. __________ __________

10. Decide how long to retain detailed inspection working papers. __________ __________

11. Review the recommended corrective actions and reach final conclusions on the actions to be taken. __________ __________

12. Communicate the inspection findings and the planned corrective actions to the other members of the firm (if any). __________ __________

13. Follow-up on planned corrective actions to determine whether the actions were taken as planned and whether they achieve the objective(s) for which they were planned. __________ __________
Appendix B
Program for Inspection of Compliance With Policies and Procedures Related to the Elements of Quality Control

Period Covered ______________________

<table>
<thead>
<tr>
<th>Findings, Including Extent of Testing</th>
<th>Done By</th>
</tr>
</thead>
</table>

Independence

1. Identify a sample of situations in which independence questions arose during the period being inspected and consider whether the resolution of such questions appears appropriate.

2. Review the written independence confirmations obtained by the firm for a sample of professional personnel, if required by firm policy.

3. Determine by review of appropriate documentation and by discussions with selected staff that the firm has advised all professional personnel on a timely basis of entities to which the independence rules apply and that professional personnel are familiar with the firm’s independence policies and procedures.

4. Determine by a review of selected engagements whether fees were paid for the prior year’s services prior to the issuance of the current year’s report.

Consultation

1. Inspect the firm’s library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm’s specialties and that loose-leaf services are filed on a timely basis.

2. On the engagements reviewed, determine whether consultation took place and was documented in accordance with the firm’s policies.

3. If sufficient testing of consultation policies and procedures was not performed in (2) above, determine through inquiry or review of subject files whether consultations took place and were correctly applied.

Supervision

1. On the engagements reviewed:

   a. Determine whether the technical materials (audit manuals, standardized forms, checklists, and questionnaires) that are required by firm policy were used.
b. Evaluate whether the technical materials are sufficiently comprehensive and up-to-date.

c. Determine whether the firm complied with its policies and procedures for the review of engagement working papers, reports and financial statements.

d. Determine whether the firm's procedures for resolving differences of opinions among members of the engagement team were followed and are appropriate.

Professional Development

1. Review the firm's CPE records on a test basis and consider whether:

   a. They appear adequate to demonstrate compliance with AICPA, state board, and state society requirements and whether they indicate that the firm's plans for CPE were carried out.

   b. Professional personnel have complied with the CPE requirements set forth in Government Audit Standards (if applicable).

   c. Professional personnel have complied with the Section’s requirements (if the firm is a member of either the PCPS or the SECPS).

Assigning Personnel to Engagements

1. Determine whether staffing and scheduling requirements were identified on a timely basis and approved by appropriate personnel.

2. Determine by interviews with selected staff whether they believe the assignments they have received are appropriate.

Hiring

1. Determine by reviewing personnel files of recently hired employees whether:

   a. The background information and other documentation required by firm policy were obtained.

   b. The individuals possessed the desired attributes, achievements, and experience and, if not, why an exception was made.

Advancement

1. Determine by reviewing personnel files whether personnel have been evaluated and promoted in accordance with the firm's policies and procedures.
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.
Appendix C
Optional Program for Review of Compliance With the Division for CPA Firms' Membership Requirements

Period Covered ______________________________

Findings, Including Extent of Testing

Done By

I. Requirements for Members of the PCPS and SECPS
1. Determine whether each owner of the firm resident in the United States and eligible for AICPA membership is a member of the AICPA.

2. Determine whether the firm's form of organization and name comply with Rule 505 of the Code of Professional Conduct.

3. Determine whether the firm filed its most recent annual report with the section.

II. Additional Requirements for Members of SECPS
1. Determine whether the firm has complied with the requirements for rotation of partners on SEC engagements. (SECPS § 1000.08(e))

2. Determine whether a concurring review was performed, prior to the issuance of any audit report on the financial statements of SEC clients, of the audit reports, financial statements and selected working papers by a partner qualified to do such review, who is other than the audit partner in charge of the engagement. (SECPS § 1000.08(f))

3. Determine whether the firm has refrained from performing those management advisory services that are proscribed by the section. (SECPS § 1000.08(h))

4. Determine whether the firm maintains documentation in the working papers of its annual report to the audit committee or board of directors of each SEC audit client on the total fees received from the client for management advisory services during the year and a description of the types of services rendered. (SECPS § 1000.08(i))

5. Determine whether the firm has reported to the Quality Control Inquiry Committee on a timely basis litigation or other actions against it or its personnel in situations required by the section. (SECPS § 1000.08(k))

6. Determine whether the firm communicated in writing on a timely basis to a SEC registrant and the Office of the Chief Accountant of the SEC when the client-auditor relationship with the SEC registrant ceased. (SECPS § 1000.08(m))

7. Determine whether the firm has developed a statement of firm philosophy and communicated that statement to professional personnel on a periodic basis. (SECPS § 1000.08(l))
Appendix D

Sample Inspection Report

Inspection period from ____________________________ to ____________________________

Names of inspectors ____________________________________________
__________________________________________

Timing of Inspection ____________________________________________

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed).
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Scope of engagements reviewed:

<table>
<thead>
<tr>
<th></th>
<th>Firm Totals*</th>
<th>Engrs. Reviewed*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hrs.</td>
<td>No. of Engrs.</td>
</tr>
<tr>
<td>Audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Accounting Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percentage of A&A Practice Reviewed

Did the inspection disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional auditing or review procedures to provide a basis for the report issued? If yes, describe the situation and the action taken by the firm.
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

The inspection findings and the recommendations regarding actions taken for improvements in the firm are attached.

Inspection Coordinator Signature ____________________________ Date ____________________________

Approved ____________________________ Date ____________________________

* Approximate totals may be used.

AICPA Peer Review Program Manual

PRP § 10,000.52
Example 1
of the Application of the Inspection Guidelines

DESCRIPTION OF THE FIRM

Size of Firm

2 Partners
6 Professional staff other than the partners
1 Office

Background

Each of the partners has 15 years of public accounting experience; the last 5 years have been spent as partners.

Nature of Practice

<table>
<thead>
<tr>
<th>Nature of Practice</th>
<th>Number</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits</td>
<td>8</td>
<td>1500</td>
</tr>
<tr>
<td>Reviews</td>
<td>20</td>
<td>800</td>
</tr>
<tr>
<td>Compilations with disclosures</td>
<td>40</td>
<td>600</td>
</tr>
<tr>
<td>Compilations omitting substantially all disclosures</td>
<td>90</td>
<td>600</td>
</tr>
</tbody>
</table>

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

• 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 Government Auditing Standards.

• The firm periodically holds in-house CPE for the staff which is taught by one of the partners.

INSPECTION PROCEDURES

Timing of Inspection

All inspection procedures will be performed during November since the 4 school district audits are not completed until September. This timing is believed to be the most effective and efficient. (The partners recognized that they could expand their preissuance review procedures if they so desired.)

---

*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.
The partners have agreed that the formal documentation approach should be adopted since the committees governing the AICPA peer review programs believe that the formal documentation approach is more effective. The formal approach will include the completion of—

- Appendix B of this document when testing the applicable elements of quality control.

- The engagement review checklists used in performing peer reviews. The partners believe that these checklists act as good “memory joggers” for accounting issues that they encounter on an infrequent basis.

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.

After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.

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.

Four months after the inspection report is prepared and the planned corrective actions are identified, the coordinating partner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.
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
5 Reviews
10 Compilations with disclosures
44 Compilations omitting substantially all disclosures (generated by a computer)

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
• 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
A combination of the two approaches has been chosen as described below:

• Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each November immediately before the practitioner’s busy season.

• A preplanning engagement checklist has been developed that addresses the objectives of inspection. Inspection procedures will include a review of the report, financial statements, and working papers on last year’s engagement to determine whether —

  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.).
### Inspection Guidance

<table>
<thead>
<tr>
<th>Documentation Approach (cont’d)</th>
<th>c. The engagement has been performed in accordance with the firm’s policies and procedures.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summarization</td>
<td>Although comprehensive engagement review checklists—such as those used by peer reviewers—will not be completed, the practitioner plans to periodically make reference to those checklists while performing the inspection procedures.</td>
</tr>
<tr>
<td>Reporting</td>
<td>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.</td>
</tr>
<tr>
<td>Retention Policy</td>
<td>In May and November, the inspection report contained in Appendix D of this document will be completed.</td>
</tr>
<tr>
<td>Follow-Up</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>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.</td>
</tr>
</tbody>
</table>
Example 3
of the Application of the Inspection Guidelines

DESCRIPTION OF THE FIRM

Size of Firm
Sole practitioner with one part-time professional staff person

Background
The sole practitioner has 25 years of public accounting experience of which the last 15 have been spent as a sole practitioner.

Nature of Practice
- 2 Audits: 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
- The practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area; the practitioner takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course.
- The practitioner takes a majority of his courses in a self-study format.
- The practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues.

INSPECTION PROCEDURES

Timing of Inspection
Because of the practitioner's focus on tax practice, he believes that more can be gained by performing a detailed review of engagements at one time during the year; this also will allow him to more readily focus on the objectives of an inspection. The practitioner believes that he can perform his own inspection since his auditing and accounting practice is not very complex. However, he recognizes that he could use someone from outside the firm (perhaps on a reciprocal basis) if he so desires.

Documentation Approach
Due to the practitioner's limited accounting and auditing related CPE, the formal approach will be chosen as described below:

- Appendix B of this document will be used to test and document the review of the applicable elements of quality control. This review will be performed each July.
- The engagement review checklists used in performing peer reviews will be completed to document the review of the selected engagements.
Inspection Guidance

Summarization  After the sample of engagements is inspected, the deficiencies will be summarized and the practitioner will evaluate what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.

Reporting    After the inspection procedures are performed, the inspection report contained in Appendix D of this document will be completed.

Retention Policy  After the inspection report is finalized, no working papers, checklists, programs, or notes will be retained regarding the engagements reviewed or the findings on those engagements or the review of the quality control system.

Follow-Up  6 months after the inspection report is prepared and the planned corrective actions are identified, the practitioner will perform sufficient procedures to determine whether the corrective actions have been taken and whether they have achieved their objectives.
Inspection period from October 1, 19XX to September 30, 19X1

Name of inspectors John Smith, James Doe

Timing of Inspection—November 19X1

Briefly describe the inspection program (including major considerations in selecting engagements and offices to be reviewed). Appendix B of the Inspection Guidance was used to test compliance with our quality control policies and procedures and the engagement review checklists contained in the Peer Review Program Manual were used when reviewing engagements. A representative sample of engagements was selected, including audit, review, and compilation engagements. The engagements covered our major industry concentrations (school districts, not-for-profit organizations, construction).

Scope of engagements reviewed:

<table>
<thead>
<tr>
<th></th>
<th>Firm Totals*</th>
<th></th>
<th>Engs. Reviewed*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hrs.</td>
<td>No. of Engs.</td>
<td>Hrs.</td>
</tr>
<tr>
<td>Audits</td>
<td>1500</td>
<td>8</td>
<td>350</td>
</tr>
<tr>
<td>Reviews</td>
<td>800</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Compilations</td>
<td>1200</td>
<td>130</td>
<td>80</td>
</tr>
<tr>
<td>Other Accounting Services</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>3500</td>
<td>158</td>
<td>510</td>
</tr>
</tbody>
</table>

Percentage of A&A Practice Reviewed .......................... 14.6% 5%

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.

AICPA Peer Review Program Manual PRP § 10,000.56
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.
CONSULTING REVIEW PROGRAM FOR CPA FIRMS IN PUBLIC PRACTICE

The Consulting Review Program was originally conceived and developed by the private companies practice section of the AICPA Division for CPA Firms in 1985 to help CPA firms evaluate their quality controls and prepare for an independent review of their quality control system. The program is available to all interested CPA firms.

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[The next page is 11,003.]
Overview

.01 The purpose of a consulting review is to help a firm evaluate and improve its quality controls and to prepare for an independent peer review of its quality control system.

.02 The consulting review program was originally conceived and developed by the private companies practice section of the AICPA Division for CPA Firms. The review is now carried out using guidelines, programs, and checklists developed by the AICPA Peer Review Division. These materials are included in this section.

.03 Arrangements for consulting reviews can be made by contacting—

a. Participating state CPA societies.

b. The AICPA Peer Review Division.

.04 During a visit to the firm, the consulting reviewer obtains a general understanding of the firm's system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm.

.05 The reviewer discusses the firm's responses to his questions and deals with specific quality control questions raised by the firm.

.06 The reviewer also performs a limited review of selected reports, the related financial statements, and working papers for each type of service (audit, review, and compilation) the firm provides.

.07 The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm's records are retained by the reviewer.

.08 For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances.

.09 For further information about the Consulting Review Program, call your state CPA society or the AICPA at (201) 938-3035.
Description of Program

.10 The review is conducted at the reviewed firm’s office and is usually completed in one day. Consulting reviewers are selected from a master reviewer bank maintained by the AICPA. These reviewers are experienced practitioners who are well-versed in the design and implementation of a quality control system and in accounting and auditing matters relevant to the industries in which the firm’s clients practice. No written report is issued, and the results are discussed only with the firm. Therefore, confidentiality is assured. Firms being reviewed can choose to have a reviewer from the same geographic area or from another region.

.11 During a visit to the firm, the consulting reviewer obtains an understanding of the firm’s system of quality control by interviewing appropriate firm personnel and by reviewing a brief quality control questionnaire completed by the firm. The reviewer discusses the firm’s responses to his questions and deals with specific quality control questions raised by the firm. The reviewer also performs a limited review of selected reports, accompanying financial statements, and working papers for each type of service (audit, review and compilation) the firm performs.

.12 The results of the review, including related suggestions, are discussed orally at the completion of the review. No written notes pertaining to the review of the firm’s records are retained by the reviewer. The results of the review are not provided to the AICPA, state CPA societies, the Division for CPA Firms, the AICPA Peer Review Board, or any other party.

.13 For firms with generally up to twenty professionals, the review involves one reviewer for one day. For larger firms, the review may take two days or more depending on the circumstances. The fee for the review is presently $700 per day plus travel and out-of-pocket expenses incurred by the reviewer.

.14 The intent of the consulting review program is to provide a firm with assistance in those quality control areas in which it believes that it may need the most guidance. Therefore, the firm should communicate to the reviewer those quality control areas that the firm wishes to be emphasized. For example, one firm may want a reviewer to provide guidance on how to establish a quality control system whereas another firm may want the reviewer to evaluate an existing system.

.15 The private companies practice section may subsidize a portion of the cost of a consulting review for firms that choose to be PCPS members. Half the fee (not including expenses), up to $350, will be refunded to the firm or applied against the cost of the firm’s first PCPS peer review provided the firm’s membership is continuous from the date of the consulting review until that firm’s first peer review. Firms that are not members of the section will be given a similar refund or credit if the firm joins the section within one year of the date of the consulting review.
.16 A consulting review does not constitute an inspection, as that term is used in Statement on Quality Control Standards 1, nor does the review qualify as meeting the AICPA membership requirement for participation in an "Institute-approved practice-monitoring program." That is, it is not a substitute for a peer review. In addition, due to the substantially limited scope of the consulting review, the results of subsequent peer reviews may possibly differ significantly in one or more aspects from those of the consulting review.

.17 Comments provided by the reviewer are offered for the firm’s consideration subject to its professional judgment and evaluation in making use of them. Comments expressed by the reviewer are not official opinions of the Institute or of any participating state CPA society, or any of their committees, but are the views of the individual who offers them. Accordingly, such comments are not binding upon a review team conducting a peer review.

Timing

.18 A consulting review should ordinarily be completed sufficiently in advance of the firm’s peer review to allow the reviewed firm to appropriately consider and implement any recommendations made by the consulting reviewer.
1. Complete the Consulting Review Program General Scheduling Information form and submit it to the AICPA or the state CPA society arranging the review.

2. The terms and conditions of the consulting review will be summarized in an engagement letter that will be forwarded to the firm along with information about the individual who has been selected to perform your consulting review.

3. A copy of the engagement letter should be signed and returned to the AICPA or the state CPA society arranging the review.

4. Complete the “Consulting Review Program Quality Control Questionnaire” to the extent possible (see Appendix A).

5. Prior to the review, send the reviewer a copy of the following documents:
   b. Consulting Review Program Quality Control Questionnaire.

6. Prior to the review, select two of each type of engagement (audit, review, and compilation) that the firm performs. Engagements selected by the firm should include work performed by different supervisory personnel and be representative of the major industries serviced by the firm. Reports, the related financial statements, and working papers for the selected engagements should be assembled and readily accessible to the reviewer. The reviewer will attempt to review at least one engagement for each type of service provided. However, a limited review of certain portions of your other selected engagements may be performed by the reviewer if time permits or if the reviewer wishes further information about a particular aspect of your practice.

7. If the firm has specific goals that it wishes to accomplish during the consulting review, discuss these goals with the reviewer.

8. Key firm personnel and persons with significant responsibility for the selected engagements should be advised to be available to the reviewer.

9. Upon completion of the review, the reviewer will communicate his or her findings at an exit conference, which should be attended by appropriate firm personnel. All written materials (questionnaires, checklists, comment sheets, etc.) developed by the reviewer in connection with the consulting review will be given to the reviewed firm.

10. Complete “Reviewed Firm’s Evaluation of Consulting Review Program” (Appendix B) and submit it directly to the AICPA Peer Review Division.
.20 Consulting Review Program Suggested Review Procedures

The procedures that follow are intended as a general guide for a reviewer conducting a consulting review. The reviewer’s professional judgment is essential in applying or modifying the procedures to suit the needs of a particular review. It is recommended that reviewers have available and be familiar with the contents of the AICPA MAP Handbook and the AICPA Accounting and Auditing Manual, which contain many examples of procedures and forms that may be useful to the reviewed firm. In addition, reviewers should be familiar with (a) the quality control standards and the typical quality control policies and procedures that may be applicable to the reviewed firm’s practice and (b) standards for performing and reporting on peer reviews. Areas in which the reviewer feels there may be a need for significant improvement should ordinarily be noted on separate comment sheets which should be given to the firm.

General Procedures

1. Review the background information supplied by the reviewed firm.

2. Discuss the specific goals that the firm wishes to accomplish during the review with the firm.

3. Obtain a general understanding of the firm’s quality control system by interviewing appropriate personnel and reviewing the “Quality Control Questionnaire” completed by the firm. If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a completed quality control policies and procedures questionnaire), it may provide that documentation to the reviewer in lieu of this questionnaire.

4. Review sample forms, checklists, questionnaires, etc., for appropriateness and comprehensiveness. Consider whether such materials—
   a. Meet the objectives for which they were designed.
   b. Have been updated for recent technical pronouncements where appropriate.
   c. Provide the firm with reasonable assurance of conforming with professional standards.

5. From the engagements selected by the firm for review, choose a sample of engagements and review each engagement using the “Engagement Questionnaire” contained in Appendix D. In choosing the sample, you should attempt to review at least one engagement for each type of service (audit, review and compilation) the firm provides. If time permits or if you wish further information about a particular aspect of the firm’s practice, you may also want to perform a limited review of certain portions of the other engagements selected by the firm.

6. Based on a reading of the financial statements and report for each engagement, together with the information contained in the “Engagement Questionnaire” consider whether—
   a. The financial statements appear to conform with generally accepted accounting principles (or, if applicable, with an other comprehensive basis of accounting) in all material respects.
b. The report issued by the firm appears to conform with professional standards.

7. Review selected working papers for compliance with professional standards and with the firm's policies and procedures. Note that many firms need guidance as to the extent to which working papers should document the procedures performed and some need consultation on the application of professional standards.

8. Hold an exit conference to discuss points accumulated during the review. Sufficient time should be reserved. Advise the firm as to your evaluation of the firm's quality control system and any suggestions for improvement. Keep in mind that the purpose of the consulting review is to help firms to improve the quality of their practices and to prepare them for peer review. Remind the firm that the consulting review, because of its limited nature, does not constitute an inspection of either functional areas of quality control or engagements nor does the review substitute for any part of a peer review. Consequently, such reviewers may disclose additional areas for which the firm may require substantial improvement in or modification of its quality control system. Finally, remind the firm that the consulting review program was established by the PCPS in 1985 as a service to CPA firms. Leave the flyer "Why You Should Join the Division for CPA Firms" with the firm.

9. All questionnaires, checklists, comment sheets, etc., developed in connection with the review (except for the "Reviewer's Completion Notification" form) must remain with the reviewed firm.

10. Remind the firm to submit "Reviewed Firm's Evaluation of Consulting Review Program" directly to the AICPA Peer Review Division, even when a state CPA society arranged the review.

11. Complete "Reviewer's Completion Notification" form (Appendix E) and submit it directly to the AICPA Peer Review Division or to the state CPA society that arranged the review along with your bill for fees of $700 per day and out-of-pocket expenses. Please use the form included in Appendix F and make sure the bill includes the federal employer identification number for Form 1099 purposes.
.21 Appendix A

Consulting Review Program

QUALITY CONTROL QUESTIONNAIRE

This questionnaire is designed to provide an overview of the firm’s quality control policies and procedures and to describe the documentation evidencing compliance with the system. The firm should fill out this questionnaire, to the extent possible, prior to the arrival of the consulting reviewer and send a copy to the consultant for review along with a copy of the Consulting Review Program General Scheduling Information form.*

The reviewer will review the responses made by the firm to the questions asked on this questionnaire. Based on these responses, the reviewer will consider whether changes to the system may be appropriate or whether further clarification of the objective of a quality control element or procedure is necessary. At the completion of the review, the reviewer will return this questionnaire to the firm along with a brief description of any changes that are recommended.

Response and Comments**

General

1. Does your firm have documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm’s procedures with references to supporting information)?

2. Does your firm use any externally developed quality control materials (for example, auditing and accounting manuals, checklists, questionnaires, work programs, etc.)? If “yes,” please indicate the publisher of the materials.

A. Independence

1. Does the firm, including all its professional personnel, adhere to the independence rules, regulations, interpretations, and rulings of the—
   a. AICPA?
   b. State CPA society?
   c. State board of accountancy?
   d. State accountancy laws?
   e. SEC and other regulatory agencies?

2. Describe how the firm informs its professional personnel of the applicable independence requirements (for example, through its personnel manual, audit and accounting manual, training meetings, memoranda).

* If the firm being reviewed has documented quality control policies and procedures (for example, a quality control document or a summary statement of the firm’s procedures with references to supporting information), the firm may wish to send a copy of such documentation to the reviewer in lieu of completing this questionnaire.

** Attach additional sheets if necessary.

AICPA Peer Review Program Manual

PRP § 11,000.21
3. How does the firm inform its professional personnel of the new clients to which independence requirements apply? For example, does the firm—
   a. Circulate new client lists to all personnel?
   b. Post new clients on a staff bulletin board?
   c. Report new clients at staff meetings?
   d. Use other (describe) means?

4. Does the firm obtain at least annually written representations from all professional personnel concerning their compliance with applicable independence requirements? If not, how does the firm monitor compliance with its independence policies? If yes, do these representations affirm that—
   a. The individual is familiar with the firm's independence policies and procedures?
   b. Prohibited investments are not held and were not held during the period?
   c. Prohibited relationships do not exist and that transactions prohibited by firm policy have not occurred?

5. Who is responsible for resolving independence questions?
   a. The engagement partner?
   b. The managing partner?
   c. Someone else (identify individual)?

6. In connection with the resolution of independence questions—
   a. In what circumstances must the question and its resolution be documented?
   b. Where is the documentation maintained (for example, the working paper files or other specific firm or client files)?
   c. What sources are or would be consulted?
   d. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence matters?

7. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement?
8. If the answer to (7) above is “yes”—
   a. Does the firm confirm the independence of such other firm(s)?
   b. Does it do so in writing?
   c. Does it do so annually?

9. Does the firm review accounts receivable from clients to ascertain whether any outstanding amounts have taken on some of the characteristics of loans and, therefore, may impair the firm’s independence?
   a. Who does this?
   b. How often is it done?
   c. Have there been any such situations during the year under review?

B. Assigning Personnel to Engagements

1. Describe the method the firm uses to assign professional personnel to engagements. In that description, include—
   a. The basis on which assignments are made. For example, some firms make assignments on an engagement-by-engagement basis; others assign personnel to specific clients and hold them accountable for all services to those clients.
   b. How staff are advised of their assignments. For example, some firms do this orally; others issue memoranda or copies of scheduling forms; others post assignments to a staff bulletin board.
   c. Who is responsible for making staff assignments on a day-to-day basis.
   d. How that person is informed of estimated time requirements and of any special skills or experience that a given assignment might demand.
   e. How far in advance assignments are typically made.

2. Does the firm require the following to have experience appropriate to the engagement:
   a. Staff?
   b. Owner-in-charge of the engagement?
   c. Concurring reviewer (if applicable)?
Consulting Review Program Guidelines

C. Consultation

1. Have certain areas or specialized situations been identified as requiring consultation? If “yes,” attach a list of such areas and situations or briefly describe them and indicate where this list will be found (for example, in the quality control document).

2. Does the firm designate any individuals as having specialized experience and expertise in certain technical areas and being available for consultation? If yes, attach a list of the individuals designated and what their specialties are and indicate how personnel have been made aware of this information.

3. How are differences of opinion between personnel and specialists resolved?

4. During the year under review, did the firm seek consultation from internal or external sources?

5. How does the firm determine when to consult with outside parties and with whom to consult?

6. Describe the extent to which the firm expects consultations with outside parties to be documented. Where is such documentation maintained?

7. Does the firm’s library include current editions of—
   a. AICPA Professional Standards?
   b. AICPA industry audit guides relevant to the firm’s practice?
   c. FASB pronouncements?
   d. GASB pronouncements, Government Auditing Standards (the “Yellow Book”) and other government audit guides relevant to the firm’s practice?

8. Has the firm issued guidance to its professional personnel regarding reports on the application of accounting principles as described in SAS No. 50. If “yes,” indicate where such guidance can be found. Also, indicate whether the firm issued any such reports during the year under review.

D. Supervision

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

3. Is a written audit program used on all audit engagements? If "yes," who is required to review and approve the audit program, and how is this approval documented?

4. Does the firm have written guidance materials regarding the following matters? If so, indicate where the material is found and whether it was developed internally or was obtained from an outside source, and name the source.
   a. Consideration of internal control structure in planning and performing an audit?
   b. Assessment of control risk?
   c. Consideration of audit risk and materiality when planning and performing an audit?
   d. Audit sampling techniques?
   e. Degree of reliance to be placed on analytical procedures?
   f. Form and content of working papers?
   g. Other audit and accounting matters, in the form of an audit and accounting manual?

5. Does the firm use any standardized forms, checklists, or questionnaires? If so, attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.)

6. Has the firm established procedures to be followed when differences of opinion exist among firm personnel on an audit (see AICPA Professional Standards, AU section 311.14)?
   a. Are those procedures documented? Where?
   b. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?
7. Does the firm use other offices or correspondents for audit or accounting engagements? If "yes," describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm's procedures for the supervision and control of that work are found.

8. Does the firm have documented procedures for review by supervisors and partners of the reports, financial statements, and working papers for—
   a. Audits?
   b. Reviews?
   c. Compilations?

9. If the answer to (8) is "yes," indicate where those procedures are found. If the answer is "no," briefly describe the procedures that are followed, including how the review process is documented.

10. Does the firm require that an individual having no other significant responsibility for the engagement perform a preissuance review of some or all engagements? If "yes," indicate who performs such preissuance reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable. Alternatively, indicate where these procedures are found.

11. Has the firm merged with any other firm since the date of its last quality review or in the last three years? If "yes"—
   a. How did the firm evaluate the quality of a potential merger candidate?
   b. Did the firm acquire any professional personnel in the merger?
   c. Did the firm acquire and retain any new office or offices in the merger (indicate the locations of any such offices)?
   d. Have the personnel of the merged firm adopted the firm's quality control policies and procedures?

E. Hiring
1. Briefly describe how the firm identifies its professional personnel needs, how it goes about recruiting such personnel, and who makes the decision to hire an applicant.
2. Briefly describe the personal, educational, and experience attributes sought in entry-level personnel and in experienced personnel and indicate whether they are objectives or requirements.

3. Identify the types of background information the firm requires for new hires, such as resumes, transcripts, and personal or employment references.

4. Briefly describe how new professional personnel are informed about the policies and procedures that are applicable to them. Also, attach a list of the manuals, professional publications, and other documents relevant to their professional assignments that are provided to them individually.

F. Professional Development
1. Are all professional personnel in compliance with the continuing professional education requirements of —
   a. Board(s) of accountancy in state(s) where they are licensed?
   b. The AICPA (if applicable)?
   c. The state CPA society (if applicable)?
   d. The private companies practice section (if applicable)?
   e. Government Auditing Standards—the “Yellow Book” (if applicable)?

2. If the answer is “no” to any of the above, attach a list of those personnel who are not in compliance and indicate the firm’s plan for correcting the situation.

3. Briefly describe how the firm plans the allocation of CPE hours among accounting and auditing, tax, and other topics and indicate when that is done.

4. Provide an approximation of the nature of the CPE taken by professional personnel assigned to audit and accounting engagements:
   a. Self-study courses
      ________% 
   b. In-house training programs—
      (i) Developed by the firm
      ________% 
      (ii) Obtained from outside vendors
      ________% 
   c. State society or AICPA programs
      ________% 
   d. Other programs
      ________%
5. Who maintains CPE records and course materials?

6. How are professional personnel made aware of changes in accounting and auditing standards and in the firm's technical policies and procedures (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?

G. Advancement
1. What levels of responsibility exist within the firm (e.g., partner, manager, senior)?

2. Are personnel at all levels aware of the responsibilities of each of these positions? How is this accomplished? Are those responsibilities documented in, for example, a personnel manual?

3. Does the firm periodically evaluate the performance of professional personnel and advise them of their progress in the firm?
   a. When are these evaluations performed?
   b. Are they documented?
   c. Are standard evaluation forms used?

4. Are partners periodically evaluated, and by what means (e.g., peer evaluation, self-appraisal, counseling)?

5. Briefly describe how advancement decisions are made (a) within the professional staff and (b) to the partnership.

H. Acceptance and Continuance of Clients
1. Briefly describe the procedures followed by the firm, including any documents generally obtained and reviewed and any inquiries generally made of third parties, before accepting a client for whom the firm will provide audit or accounting services in order to provide the firm with reasonable assurance that the client has integrity, to identify any unusual risks that might be associated with the client, and to evaluate the firm's ability to serve the client in a competent and independent manner. Also indicate any variances in those procedures, depending on, for example, the services to be provided.

2. Indicate when or under what circumstances current audit and accounting clients are evaluated to determine whether the relationship should be continued, and briefly describe the procedures that are followed.
3. Were any audit or accounting client relationships terminated by the firm during the year under review?

I. Inspection

1. Has the firm performed a timely, formal, documented inspection of its quality control policies and procedures for each year since its last peer review (or for the year preceding the review year if the firm has not previously had a review)? If "yes," briefly describe—
   a. The scope of the program, including who carries it out.
   b. The materials used, such as questionnaires, programs, and checklists.
   c. The documentation of the work performed and conclusions reached and the period of time such documentation and conclusions are retained.

2. Has the firm taken appropriate corrective action in response to the findings on its most recent peer review?
Consulting Review Program

REVIEWED FIRM'S EVALUATION OF CONSULTING REVIEW PROGRAM

Consulting Reviewer __________________________________________________________

Reviewer’s Firm _____________________________________________________________

Reviewed Firm _______________________________________________________________

Date of Review ______________________________________________________________

On a scale of 5 to 1, please circle the best expression of your feelings on each statement. 5=Strongly Agree, 4=Agree, 3=Undecided, 2=Disagree, 1=Strongly Disagree.

1. The reviewer provided useful suggestions for improving the quality of the firm's practice. .......................... 5 4 3 2 1

2. The reviewer showed good judgment in distinguishing between important and unimportant matters. .......................... 5 4 3 2 1

3. As a result of this review, the firm is better prepared to undergo a peer review or a quality review. .......................... 5 4 3 2 1

4. The reviewer(s) is (are) recommended for other firms. .......................... 5 4 3 2 1

Additional comments concerning the consulting review program or the reviewer:

__________________________________________________________________________

__________________________________________________________________________

Is the firm a PCPS member? __________. If not, does it plan to join PCPS? If “no,” please indicate why.

__________________________________________________________________________

__________________________________________________________________________

Date    Managing Owner or Proprietor    Managing Owner’s or Proprietor’s Signature
Consulting Review Program Guidelines

This form should be filled in after the review is completed and sent directly to:

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

1. Comments on the appropriateness of sample forms, checklists, and questionnaires. 

__________________________________________________________________________

__________________________________________________________________________

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2. General comments and suggestions concerning the firm's quality control system. 

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* Attach additional sheets if necessary.
.24 Appendix D

Consulting Review Program

ENGAGEMENT QUESTIONNAIRE

A. General Data:
Engagement Name or Code No. ____________________________________________________

Period covered by financial statements ____________________________________________

Major lines of business __________________________________________________________

Date of report _________________________________________________________________

Date report released _____________________________________________________________

Complex or troublesome areas ___________________________________________________

B. Nature of Entity:
( ) Independent entity
( ) Consolidated or combined group
( ) Subsidiary, division or branch
( ) Other (explain) __________________________

C. Nature of Service:
( ) Audit engagement
( ) Review engagement
( ) Compilation engagement
( ) Compilation engagement—substantially all required disclosures omitted
( ) Other (explain) __________________________

D. Financial Statements Included:
( ) Balance sheet
( ) Income statement
( ) Statement of cash flows
( ) Supplementary information (describe) __________________________________________
( ) Other (explain) __________________________

E. Accounting Basis for Financial Statements:
( ) Generally accepted accounting principles
( ) Cash basis
( ) Income tax basis
( ) Other (explain) __________________________

F. Specific Engagement Questions:
The objectives of the review of engagements are to evaluate (1) whether the firm appears to be complying with professional standards, including GAAP, GAAS, GAGAS and SSARS, and (2) whether the firm might benefit from suggestions the reviewer may have concerning efficiency or economy in performing the engagement or documenting the results thereof. To the extent necessary to achieve these objectives, the review of engagements should include a review of financial statements, accountants’ reports, and selected working papers and may include a discussion with key personnel assigned to the engagement.
Consulting Review Program Guidelines

The attached questionnaire is divided into two sections. The first section is intended to highlight the types of transactions, events or agreements for which disclosure may be required in the financial statements. This section is applicable to all types of engagements, including review and compilation engagements. The list was developed for use in reviewing engagements of “for profit” companies and will require extensive modification for other types of entities. The reviewer is urged to refer directly to the applicable authoritative pronouncements when appropriate. The second section contains certain areas of documentation that would normally be prepared for engagements.

In conjunction with the review of each engagement, the reviewer should—

- Review the items in Section 1 and consider whether they have been disclosed in accordance with generally accepted accounting principles.
- Review selected working papers, including the items listed in Section 2, and consider whether sufficient documentation exists in the working papers evidencing compliance with the applicable professional standards (GAAS or SSARS).

If there are areas in which the reviewer feels there may be a need for improvement, these should be noted on the separate comment sheets attached to this program. The comments should be clear and concise and should describe specific recommendations for improvements. At the completion of the review, these comments should be given to the firm.

1. Disclosures (Applicable to all engagements except for engagements to compile financial statements that omit substantially all required disclosures)
   a. Accounting changes
   b. Business combinations
   c. Investments in debt or equity securities
   d. Related party transactions (including receivables and payables from officers, employees and affiliates)
   e. Inventory valuation method(s)
   f. Leasing arrangements, including operating, direct financing, leveraged, and capital leases
   g. Other fixed assets
   h. Retirement plans, including pension and profit sharing plans
   i. Postemployment and postretirement plans other than pension plans
   j. Stock option or purchase plans
   k. Commitments and contingencies
   l. Compensated absences
   m. Significant events between the balance sheet and report dates
   n. Pledging of assets
   o. Loan agreements or covenants imposing significant restrictions
   p. Changes in capital accounts
   q. Capital stock with significant rights or preferences
   r. Discontinued operations
   s. Extraordinary items
   t. Unusual or infrequent items
   u. Other valuation allowances
   v. Investment tax expenses, benefits, temporary differences, investment tax credits and other information on the effect of income taxes
   w. Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate
   x. Troubled debt restructurings
   y. Unusual or specialized accounting policies

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z. Research and development costs
aa. Computer and software costs
bb. Interest costs, including any capitalized interest
c. Maturities and sinking fund requirements for the next five years with respect to long-term debt
dd. Restrictions on cash balances
ee. Non-cash transactions
ff. Financial instruments with concentrations of credit risk
gg. Financial instruments with off-balance sheet risk
hh. Product financing arrangements
ii. Foreign operations
jj. Foreign currency transactions
kk. Nonmonetary transactions
ll. Going concern considerations

2. Working Paper Areas

Audit Engagements

a. Engagement letter (if required by firm policy)
b. Study and evaluation of internal control structure and assessment of control risk
c. Planning
d. Audit risk and materiality
e. Audit sampling techniques
f. Degree of reliance placed on analytical procedures
g. Communication of material weaknesses in internal control structure to senior management
h. Audit programs
   i. Scan the audit programs for comprehensiveness
   ii. Review working papers evidencing work performed in significant areas
i. Management representation letter
j. Legal letter
k. Summary of passed adjustments

Review Engagements

a. Engagement letter or memorandum of oral understanding
b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity’s business
c. Work programs
d. Management representation letter
e. Summary of passed adjustments
f. Accountants’ inquiries
g. Accountants’ analytical procedures and related documentation
h. Unusual matters considered during the engagement

Compilation Engagements
a. Engagement letter or memorandum of oral understanding.
b. Information about the accounting principles and practices of the industry in which the entity operates and about the entity's business
c. Accountants' inquiries (if required by firm policy)
d. Unusual matters considered during the engagement
e. Evidence that the accountant read the financial statements
### COMMENTARY ON ENGAGEMENT QUESTIONS—CONFIDENTIAL AND FOR INTERNAL USE ONLY

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**Consulting Review Program Guidelines**

**COMMENTARY ON ENGAGEMENT QUESTIONS—CONFIDENTIAL AND FOR INTERNAL USE ONLY**

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Consulting Review Program

REVIEWER’S COMPLETION NOTIFICATION

Date __________________________________________

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

From: ___________________________________________________________________
Reviewer

Re: ___________________________________________ __________________________________________
Review Number Firm Number

The consulting review of ____________________________________________________________ has been completed.

The exit held on ______________. An invoice for my services and out-of-pocket expenses is attached.

_________________________________________
Reviewer’s Signature

Note: If the review was arranged by a state CPA society, send this form and your invoice to that state.
Consulting Review Program Guidelines

Appendix F

Consulting Review Program

BILLING FORM

Name and Address of the Reviewed Firm:


Reviewed Firm’s AICPA Number: ______________________________________

Consulting Review Number: ______________________________________

Name and Address of the Reviewer:


AICPA Member Number: ______________________________________

Billing Information

Gross Fees:
Rate $__________/day
Number of days __________
Gross Fees $__________

Expenses:
Airfare $__________
Hotel $__________
Meals $__________
Other (identify) $__________

Total Expenses $__________

Total Fees and Expenses $__________

Reviewer’s Firm’s Federal Identification Number

Submitted by: _____________________________ Date: ___________________________

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The guidance on performing and reporting on reviews of quality control materials included in this section was originally conceived and developed by the SEC practice section and the private companies practice section of the AICPA Division for CPA Firms to provide a uniform framework around which the reviews of quality control materials could be performed.

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[The next page is 12,101.]
PRP Section 12,100

Standards for Performing and Reporting on Reviews of Quality Control Materials

Introduction

.01 Quality control materials (QCM) are materials that are suitable for adoption by a firm as an integral part of that firm's quality control system.¹ Such materials provide guidance on conforming with professional standards and may include, but are not limited to, such items as—

a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams

b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms

.02 Occasionally, organizations (hereinafter referred to as "providers") may sell or otherwise distribute quality control materials that they have developed to CPA firms (hereinafter referred to as "user firms").

.03 Providers may elect voluntarily or be required to have an independent review of their system of quality control for the development and maintenance of the quality control materials they have developed and of the materials themselves.² The reasons for having such a review are—

a. To provide assurance to user firms that the quality control materials they have acquired are reliable aids to assist them in conforming with the professional standards the materials purport to encompass.

b. To provide more cost-effective peer reviews for firms that have acquired such materials.

c. To assure that independence and objectivity on peer reviews of user firms are maintained when such reviews are performed by providers.

Objectives of a Review of Quality Control Materials (QCM)

.04 The objectives of a review of quality control materials developed by a provider are—

a. To determine whether the provider's system for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass.

b. To determine whether the resultant materials are reliable aids.

Applicability

.05 An independent review of the system for the development and maintenance of quality control materials and the resultant materials (the "QCM review") is required for the following classes of providers:

a. A member firm providing quality control materials to another member firm for which the provider firm will perform the peer review

¹ Continuing professional education programs are not included in the definition of quality control materials for purposes of this section. Reviews of continuing professional education programs that an organization may develop and sell or otherwise distribute to CPA firms are described briefly in PRP § 12.200, Guidelines for Review of Continuing Professional Education Programs.

² See Appendix C, PRP § 12.100.28 for a discussion of the elements that a provider's system for the development and maintenance of quality control materials should include.
b. An association of CPA firms providing quality control materials, that meet the definition of association quality control materials, to its member firms when the peer reviews of those firms are to be administered by the association.

.06 A provider of quality control materials falling into either of these categories should have a QCM review once every three years. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the AICPA Peer Review Board ("the Board") or its designee to determine whether an accelerated review is warranted.

.07 Any other provider of quality control materials that voluntarily has a QCM review also will be subject to the standards in this section. A provider may have a review voluntarily so that peer reviewers of user firms can place reliance on the QCM review rather than having to review the quality control materials in detail.

.08 All providers of quality control materials that have a QCM review must notify the Board or its staff in advance of that review in order to permit oversight. Providers must also notify the Board or its staff should the QCM review be discontinued.

Standards for Performing QCM Reviews

Qualifications for Serving as QCM Reviewers

.09 A QCM review may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association quality control materials may not be performed by a member of the association whose materials are being reviewed. Furthermore, a QCM may not be performed by a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the QCM review, such as a person who assisted in the development or review of such materials or a firm that uses the materials as an integral part of its quality control system.

.10 A QCM review team shall possess the same qualifications for on-site review teams as set forth in the paragraphs 3100.15-.21 of the Standards for Performing and Reporting on Peer Reviews sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer." In addition, associations requested to perform QCM reviews must adhere to the guidelines contained in PPR §9100, Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program.

Procedures for Performing QCM Reviews

.11 The provider should identify the materials to be reviewed and on which an opinion is to be expressed. A QCM review should include a study and evaluation of the system for the development and maintenance of the quality control materials that have been identified and a review of the materials themselves.

.12 A study and evaluation of the system for the development and maintenance of quality control materials normally should include the following procedures:

a. Reviewing and evaluating the procedures established for developing quality control materials

b. Reviewing and evaluating the procedures established for updating (including distributing) the quality control materials to assure that the materials remain current and relevant when the provider has undertaken the responsibility for updating the materials

c. Reviewing the technical competence of the developer(s)/ updater(s) of the quality control materials

d. Obtaining evidence that the quality control materials were reviewed for technical accuracy by qualified person(s) other than the developer(s)/ updater(s)

3 See Appendix A, PRP § 9100.16, "Examples of Association Quality Control Materials."
e. Determining whether the provider has appropriately communicated its policy regarding the period covered by the materials, the professional standards the materials purport to encompass, and the provider’s intention to update the materials

f. Reviewing the system developed for soliciting and evaluating feedback from users of the quality control materials

.13 A QCM review team should review the resultant quality control materials, to the extent deemed necessary, to evaluate whether the materials are reliable aids in conforming with those professional standards the materials purport to encompass.

**Standards for Reporting on QCM Reviews**

**The Review Team’s Report**

.14 Within thirty days of the date of the exit conference, the QCM review team should furnish the provider with a written report and, if applicable, a letter of comments.⁴

**Unqualified Report**

.15 An unqualified report issued by a QCM review team shall contain the following:

a. A statement of the scope of the review

b. An identification of the quality control materials reviewed

c. A statement that the review was conducted in accordance with standards promulgated by the Peer Review Board of the American Institute of Certified Public Accountants

d. A description of the general characteristics of a system of quality control

e. A disclaimer regarding the application of the materials by user firms

f. An opinion (without qualification) that the system of quality control for the development and maintenance of the quality control materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass

g. An opinion (without qualification) that the identified quality control materials are reliable aids

.16 An example of an unqualified report is included in Appendix A, PRP §12,100.26.

**Other Types of Reports**

.17 The following circumstances ordinarily would require the issuance of a qualified report, an adverse report, or a disclaimer:

a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary

b. The provider’s system of quality control for the development and maintenance of quality control materials, as designed, did not provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass

⁴ A QCM review team should communicate its findings to the provider organization at an exit conference. For guidance on preparing for and holding an exit conference, see PRP §3100.48 Standards for Performing and Reporting on Peer Reviews.
c. The degree of compliance with the provider's system of quality control for the development and maintenance of quality control materials was not sufficient to provide user firms with reasonable assurance that reliable aids had been developed to assist them in conforming with those professional standards the materials purport to encompass.

d. The resultant quality control materials are not reliable aids to assist user firms in conforming with those professional standards the materials purport to encompass.

.18 In those instances in which the QCM review team determines that a qualified or adverse report is required, all the reasons should be disclosed and the QCM review team should consult with the Board or its designee prior to the issuance of the report.

**Letter of Comments**

.19 A letter of comments issued by a QCM review team should include the following:

a. A reference to the report and, if applicable, an indication that the report was qualified or adverse.

b. A description of the purpose of the QCM review.

c. A statement that the review was conducted in accordance with standards promulgated by the Peer Review Board of the American Institute of Certified Public Accountants.

d. A description of the limitations of a system for the development and maintenance of quality control materials and of the materials themselves.

e. The reviewer's findings, including sufficient detail with respect to the quality control materials so that user firms can determine the actions they need to take, if any, to overcome the effects of the deficiencies noted.

f. A statement that the matters discussed in the letter were considered in determining the opinion on the system for the development and maintenance of the quality control materials and the resultant materials.

.20 If any of the matters to be included in the letter were included in the letter issued in connection with the provider's previous QCM review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the QCM review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

.21 The letter of comments should include appropriate comments regarding the design of the provider's system of quality control for the development and maintenance of the quality control materials, or its compliance with that system, or deficiencies noted in the resultant quality control materials.5

.22 Appendix B, PRP § 12,100.27, illustrates how some of the foregoing matters may be covered in a letter of comments.

.23 If a qualified report is issued, the letter must include a separate section on the matters that resulted in the qualification. This section would include an elaboration of the findings discussed in the qualifying paragraph of the report.

**Letter of Response**

.24 The provider is required to respond in writing to the letter of comments. The response should be addressed to the Board and should describe the action(s) taken or planned with respect to each matter in the letter. If the provider disagrees with one or more of the comments, its response should describe the reasons for such disagreement.

5 For guidance on evaluating whether a matter should be included in a letter of comments on a QCM review, see PRP § 3100.64 of the Standards for Performing and Reporting on Peer Reviews.

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disagreement. In the event that a material error or omission in the quality control materials is uncovered by the QCM review team, the response also should describe the provider's plan for notifying known users of that error or omission.

.25 When a letter of comments is issued along with a qualified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unqualified report.
Standards for Reviews of Quality Control Materials

Sample Unqualified Report

[Firm, association, or state CPA society letterhead]

Executive Board
XYZ Organization

We have reviewed the system of quality control for the development and maintenance of (identify each item covered by the opinion or refer to an attached listing) ("materials") of XYZ Organization ("the organization") in effect for the year ended December 31, 19__ and the resultant materials in effect at December 31, 19__ in order to determine whether the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. [The organization has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials.]* Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Board of the American Institute of Certified Public Accountants.

In performing our review, we have given consideration to the following general characteristics of a system of quality control. An organization’s system for the development and maintenance of quality control materials encompasses its organizational structure and the policies and procedures established to provide the users of its materials with reasonable assurance that the quality control materials are reliable aids to assist them in conforming with professional standards in conducting their accounting and auditing practices. The extent of an organization’s quality control policies and procedures for the development and maintenance of quality control materials and the manner in which they are implemented will depend upon a variety of factors, such as the size and organizational structure of the organization and the nature of the materials provided to users. Variance in individual performance and professional interpretation affects the degree of compliance with prescribed quality control policies and procedures. Therefore, adherence to all policies and procedures in every case may not be possible.

Our review and tests were limited to the system of quality control for the development and maintenance of the aforementioned materials of the XYZ Organization and to the materials themselves and did not extend to the application of these materials by users of the materials nor to the policies and procedures of individual users.

In our opinion, the system of quality control for the development and maintenance of the quality control materials of the XYZ Organization was suitably designed and was being complied with during the year ended December 31, 19__ to provide users of the materials with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. Also, in our opinion, the quality control materials referred to above are reliable aids at December 31, 19__.

John Doe, Team Captain [or Name of Reviewing Firm]

* To be included if the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials. In this circumstance, all references to "maintenance" of the quality control materials should be deleted from the report and letter of comments.
.27 Appendix B

Sample Letter of Comments

[Firm, association or state CPA society letterhead]

April 15, 19__

Executive Board
XYZ Organization

We have reviewed the system of quality control for the development and maintenance* of (identify each item covered by the opinion or refer to an attached listing) ("materials") of XYZ Organization ("the organization") in effect for the year ended December 31, 19__ and the resultant materials in effect at December 31, 19__ and have issued our report thereon dated April 15, 19__ (which was modified as described therein).** This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon your system of quality control for the development and maintenance of quality control materials and your compliance with that system, and upon whether the materials are reliable aids in assisting users in conforming with those professional standards the materials purport to encompass. Our review was conducted in accordance with the standards for reviews of quality control materials promulgated by the Peer Review Board of the American Institute of Certified Public Accountants; however, our review would not necessarily disclose all weaknesses in the system or instances of noncompliance with it or all deficiencies in the quality control materials.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control for the development and maintenance of quality control materials. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control for the development and maintenance of quality control materials or of the materials themselves to future periods is subject to the risk that the system or the materials may become inadequate because of changes in conditions, or that the degree of compliance with the system may deteriorate, or that the materials may become outdated.

Design of the Quality Control System

Finding—The organization’s policies and procedures for the development and maintenance of quality control materials state that feedback on the materials is obtained by means of a questionnaire provided with the materials. The organization’s policies and procedures do not specify the procedures to be followed for reviewing and analyzing returned questionnaires. As a result, our review of the questionnaires received by the organization during the review period indicated that the questionnaires were being read, but that they were not being summarized or analyzed to determine whether the quality control materials require change.

Recommendation for improvement—The organization should revise its policies and procedures for the development and maintenance of quality control materials to include procedures for reviewing, summarizing, and analyzing the feedback received on its quality control materials in order to determine whether the materials require change(s) to provide reasonable assurance that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

* If the provider has not undertaken the responsibility for maintaining the currency and relevancy of the quality control materials, all references to "maintenance" of the quality control materials should be deleted from the letter of comments.

** To be included if a modified or adverse report is issued and should be tailored to fit the circumstances.

AICPA Peer Review Program Manual

PRP § 12,100.27
Noncompliance with the Quality Control System

Finding—The organization’s policies and procedures require that a technical review of all quality control materials be performed by a qualified person other than the developer to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass. During our review, we noted that such a technical review was performed on all of the materials we reviewed except for the current edition of the financial statement disclosure and reporting checklist. However, we were satisfied that the checklist is a reliable aid.

Recommendation for improvement—The organization should remind its personnel of the importance of complying with its technical review policy. In addition, the organization may wish to implement other controls to ensure compliance with this policy.

Deficiency in the Quality Control Materials

Finding—In our review of the organization’s accounting and auditing manual, we noted that there was no guidance for the avoidance of unwarranted reliance on computer-generated reports. Furthermore, in our review of the organization’s quality control policies and procedures manual, we noted that the manual states that the completion of the organization’s Environmental Information Form will provide sufficient documentation to enable a user to obtain an understanding of the flow of transactions through the computerized portion of an accounting system. As presently designed, the Environmental Information Form, when completed, ordinarily will not, by itself, provide sufficient documentation.

Recommendation for improvement—The organization, in its next revision of its manuals, should provide guidance for the avoidance of unwarranted reliance on computer-generated reports and modify the Environmental Information Form or develop other aids so that, when properly completed, it/they will provide sufficient information about the computerized portion of an accounting system to enable a user to obtain an understanding of the flow of transactions through it.

The foregoing matters were considered in determining our opinion set forth in our report dated April 15, 19__, and this letter does not change that report.

John Doe, Team Captain
[or Name of Reviewing Firm]
Appendix C

Elements of a Provider's System for the Development and Maintenance of Quality Control Materials

1. A provider's system for the development and maintenance of quality control materials normally should include—

   a. A requirement that the quality control materials be developed by individuals qualified in the subject matter.

   b. A requirement that the quality control materials be reviewed for technical accuracy by qualified person(s) other than the developer(s) to ensure that the materials are reliable aids to assist users in conforming with those professional standards the materials purport to encompass.

   c. Procedures to ensure the currency and relevancy of the quality control materials.

   d. Procedures for soliciting and evaluating feedback from users of the quality control materials.

   e. Procedures for communicating the period and, where appropriate, the professional standards encompassed by the materials, and the provider's policy, if any, regarding the issuance of updates to the materials and, if a policy exists, the method of updating.

   f. Procedures for ensuring that the materials are updated in accordance with the provider's policy when it has undertaken to update them.
Appendix D

Guidance for Firms Using Acquired Quality Control Materials

Introduction

1. A firm’s quality control materials are those materials that have been adopted as an integral part of the firm’s quality control system. Such materials provide guidance in conforming with professional standards and may include, but are not limited to, such items as—

   a. Engagement aids, including accounting and auditing manuals, checklists, questionnaires, work programs, computer-aided accounting and auditing tools, and similar materials intended for use by accounting and auditing engagement teams.

   b. Personnel manuals, inspection checklists, hiring forms, and client acceptance and continuance forms.

2. Some firms ("user firms") acquire these materials from another accounting firm or some other third party and require their personnel to use the materials during the performance of accounting and auditing engagements or elsewhere in its system of quality control. The following guidance has been developed to assist firms in discharging their responsibilities when they acquire quality control materials from others.

Guidance for User Firms

3. Users of acquired quality control materials are obligated to evaluate whether the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass. If the materials have been subjected to an independent review ("QCM review"), a user firm should obtain and review the report and, if applicable, the letter of comments and response thereto from the provider, and determine whether the firm should establish compensating policies and procedures as a result of any deficiencies identified in the report or letter of comments.

If the materials have not been subjected to an independent QCM review, the user firm must evaluate whether the materials are reliable aids to assist it in conforming with those professional standards the materials purport to encompass.

4. Regardless of whether the acquired quality control materials have been subjected to an independent QCM review, the user firm is responsible for tailoring the materials, to the extent appropriate, to provide it with reliable aids to assist its professional personnel in conforming with those professional standards the materials purport to encompass and for integrating those materials into its practice. A user firm should establish a plan for doing these. Such a plan would ordinarily include—

   a. Identifying the materials that personnel must use during the performance of accounting and auditing engagements.

   b. Tailoring the materials to the firm’s practice.

   c. Communicating the firm’s policies and procedures for using the materials to the professional personnel.

   d. Training the professional personnel in the use of the materials.

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1 Where a firm has acquired quality control materials that have been subjected to a QCM review, the peer reviewer may rely on the results of the QCM review. However, the reviewer must still evaluate whether the firm has appropriately tailored the materials and integrated them into its practice.

2 The user firm should be aware that the piecemeal utilization of a provider’s quality control materials may violate the integrity of the design of the materials.

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5. It is the user firm's responsibility to ensure that its quality control materials remain current and relevant if the provider has not undertaken the responsibility for updating the materials. Where the provider has undertaken such a responsibility, the user firm should monitor that updates are received on a timely basis and are in accordance with those professional standards the updates purport to encompass. In the event that a provider does not undertake the responsibility for updating quality control materials or if a user has not received timely updates, the user firm should establish appropriate quality control policies and procedures to provide it with reasonable assurance of conforming with those recently issued professional standards that the provider's quality control materials do not encompass.
PRP Section 12,200

Guidelines for Review of Continuing Professional Education Programs

Introduction

.01 Associations of CPA firms authorized to arrange and carry out peer reviews are required to submit to an independent review of the materials that constitute association quality control materials and of the related system of quality control for the development and maintenance of the materials at least once every three years. (Other providers of quality control materials may opt for an independent review of these materials.) In the event of substantial change in the system or in the resultant materials, the third-party provider should consult with the AICPA Peer Review Board or its designee to determine whether an accelerated review is warranted.

.02 The following discussion describes the guidelines that a review team should follow in reviewing continuing professional education programs ("CPE programs") that constitute association quality control materials. See PRP § 12,100, Standards for Performing and Reporting on Reviews of Quality Control Materials for information on reviews of quality control materials other than CPE programs.

Qualifications of Review Teams

.03 A review of association CPE programs may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association CPE programs may not be performed by a member of the association or subscriber to the third party materials. Furthermore, the review of association CPE programs may not be performed by a person or firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the review, such as a person who assisted in the development, review, or presentation of the CPE programs or a firm that uses the programs as an integral part of its quality control system.

Review Procedures

.04 The review should include a study and evaluation of the system of quality control for the development and maintenance of the CPE programs and a review of the CPE programs themselves. Such a review normally should include—

a. Obtaining a description of the system of quality control for the development and maintenance of the CPE programs.

b. Obtaining a description of the objectives of the CPE programs.

c. Reviewing the qualifications (subject matter and instruction design) of the developer(s) and reviewer(s) of the CPE programs.

d. Obtaining evidence that the CPE programs were reviewed by qualified person(s) other than the developer(s).

e. Reviewing and evaluating the procedures established for updating the CPE programs to ensure that they remain current and relevant, and for communicating any relevant changes in professional standards, to program participants should new professional standards be issued prior to updating the CPE programs.

f. Reviewing the system developed for soliciting and evaluating feedback on the CPE programs.

g. Testing documentation evidencing compliance with the system.
h. Reviewing selected instructor and participant manuals and evaluating whether the materials appear to accomplish the program's objectives.

i. Evaluating whether the applicable AICPA standards for CPE program development and presentation that are not covered by the provider's procedures are being achieved.

**Reporting on a Review**

.05 For assistance in preparing the report and letter of comments, if any, on the review of the quality control system for the development and maintenance of CPE programs and of the CPE programs themselves, the reviewer should refer to the general guidelines set forth in PRP § 12,100, *Standards for Performing and Reporting on Reviews of Quality Control Materials.*
PEER REVIEW DIVISION
The Peer Review Technical Staff answers inquiries about specific audit or accounting problems.

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