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Checklist for Review of Audit Engagements of State or Local Governmental Entities, Including Those Receiving Federal Financial Assistance

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

DIVISION FOR CPA FIRMS

Peer Review Program

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS
OF STATE OR LOCAL GOVERNMENTAL
ENTITIES, INCLUDING THOSE RECEIVING
FEDERAL FINANCIAL ASSISTANCE

(SEE SEPARATE INSTRUCTIONS INSIDE FOR USE OF THIS CHECKLIST)

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Supplementary Instructions for Use of
Checklist for a Review of Audit Engagements
of State or Local Governmental Entities, Including
Those Receiving Federal Financial Assistance

This checklist was developed for use by reviewers assigned to peer reviews of member firms that conduct audits of state and local governments, including those entities that receive federal financial assistance. It should be read in conjunction with other guidance materials issued to implement the peer review program of the AICPA Division for CPA Firms. Questions regarding these instructions or any other materials or about the review in general should be directed to the AICPA Quality Control Review Division staff member who initially contacted you or to the Quality Control Review Division at 212/575-6650.

The questions in the checklist are intended to emphasize the general procedures that an independent auditor would ordinarily perform in examining and reporting on financial statements of state and local governmental units.

Accordingly, the matters covered in this checklist concentrate primarily on the accounting and auditing procedures that are unique to those governmental audits and that extend the auditor's responsibilities beyond compliance with the AICPA's GAAS.

The procedures have been principally derived from the pronouncements of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards (GASB Cod.), and the U.S. General Accounting Office's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (GAO's Standards for Audit), and the AICPA's Audit and Accounting Guide, Audits of State and Local Governmental Units.

In addition, the checklist contains a separate section (III) devoted solely to compliance with 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) and the Standards for Audit issued by the GAO.

Among the types of entities included within the definition of a state or local governmental unit are any unit of local government within a state, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government. States include the 50 states, the District of Columbia, Puerto Rico, Virgin Islands, other territories, and Indian Tribal Governments.

ENGAGEMENT PROFILE

Engagement Code No. _____ Office _____

Partner _____ Date of Financial Statements* _____

Manager _____ Date of Report _____

Concurring Reviewer _____ Date Report Released _____

The responsibility of this office 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 (explain)
- () Internal Control and Compliance (pursuant to the Single Audit Act)

Was the work performed at the request of another office? Yes ___ No ___

Date that last year's fee 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 (type of entity, population, services provided, and other data)

Complex or troublesome audit areas:

Audit hours on this engagement:

	<u>Total</u>	<u>Prior to Commencement of Field Work</u>	<u>During Field Work</u>	<u>After Completion of Field Work</u>
Partner	_____	_____	_____	_____
Manager (or equivalent)	_____	_____	_____	_____
Other	_____			
Total this office	=====			
Total budgeted	_____			

* To determine the applicability of all cross-referenced pronouncements, their effective dates should be considered.

Personnel Continuity:

	<u>Partner</u>	<u>Manager or (equivalent)</u>
Number of years assigned to this job	_____	_____
Number of years in current position on the job	_____	_____

LIST OF KEY AUDIT AREAS SELECTED BY REVIEWER

A reviewer is not required to look at all the working papers for a particular engagement. The depth of the review is left to the judgment of the reviewers; however, the review is directed primarily to the key areas of an engagement, including complex or troublesome areas. Ordinarily all key audit areas should be reviewed. List below the key areas on this engagement and, if any key areas are not reviewed, indicate the reasons for this omission. In completing this checklist, all questions in Sections I, II, III and V should be answered in addition to the key areas identified.

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Date Engagement Review Performed _____

Reviewer _____

Date Checklist Reviewed
by Team Captain _____

Signature _____

CHECKLIST FOR REVIEW OF AUDIT ENGAGEMENTS

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NOTE: This checklist has been updated through
SAS No. 49, SFAS No. 85, FASB Interpretation
No. 38, GASB Codification, and GASBS No. 2.

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 reviewers may wish to consult the authoritative literature of the above noted organizations as well as the AICPA financial reporting aid, Disclosure Checklists, a copy of which has been provided to the review team. 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.

A. Auditor's Reports

	N/A*	YES	NO	REF.**
1. 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 funds and account groups of the governmental and proprietary fund types and, where required, changes of financial position of proprietary fund types?				
2. If the audit was required to be conducted in accordance with the GAO's Standards for Audit, do the auditor's report(s) include references to GAO's Standards for Audit, and appropriately cover:				
a) The general purpose or component unit financial statements, including, where presented, the combining and individual fund and account group financial statements?				
b) Internal accounting control based solely on a study and evaluation made as part of the audit of the financial statements?				
c) Compliance with finance-related legal and contractual provisions including summary of questioned costs and/or instances of noncompliance?				
3. If the audit was required by the Single Audit Act, did the auditor's report(s) include references to the GAO's Standards for Audit, where required, and contain the following:				

* The N/A column should be used when the item either does not exist or is not material.

** All "no" answers must be explained on the pages provided at the end of this checklist.

	N/A	YES	NO	REF.
a) The auditor's report(s) on general purpose or component unit financial statements and on schedule of federal financial assistance; the financial statements; and a schedule of federal financial assistance showing total expenditures for each federal financial assistance program as identified in the <u>Catalog of Federal Domestic Assistance</u> ;				
b) The auditor's report on internal control (accounting and administration) identifying:				
(i) The entity's significant internal accounting controls and those controls designed to provide reasonable assurance that federal programs are being managed in compliance with laws and regulations?				
(ii) The controls that were evaluated?				
(iii) The controls that were not evaluated?				
(iv) The material weaknesses identified as a result of the evaluation?				
c) The auditor's report on compliance including:				
(i) <u>For major programs:</u> An opinion that the entity administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements?				
(ii) <u>For nonmajor programs:</u> A statement of positive assurance with respect to those items tested for compliance, including compliance with laws and regulations pertaining to financial reports and claims for advances and reimbursements? Negative assurance on those items not tested? A summary of all instances of noncompliance? An identification of total amounts questioned, if any, for each federal financial assistance award, as a result of noncompliance?				

	N/A	YES	NO	REF.
d) When appropriate, did the auditors issue a report on fraud, abuse, or an illegal act, or indications of such acts?				
4. Is the report dated in conformity with the requirements of professional standards?				
5. If additional information, including statistical data, accompanies the basic financial statements, does the auditor describe in his report the degree of responsibility, if any, he is taking?				
6. When possible and appropriate were findings presented in accordance with the guidance in Chapter VII of the GAO's Standards for Audit?				
7. If required by the circumstances, does the auditor's report depart from the standard report and include appropriate language describing the modification?				
8. For special reports, have the provisions of SAS Nos. 14 and 35 been complied with regarding:				
a) Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles? (SAS No. 14)				
b) Specified elements, accounts or items of a financial statement? (SAS Nos. 14 and 35)				
c) Compliance with aspects of agreements or regulatory requirements relating to audited financial statements? (SAS No. 14)				
d) Financial information that requires a prescribed form of auditors' report? (SAS No. 14)				
<u>B. Financial Statements and Footnotes</u>				
<u>General</u>				
1. Are all financial statements suitably titled?				
2. a) Are appropriate General Purpose (Combined) or Component Unit Financial Statements presented as required by GASB Cod. Sec. 1900?				
b) If totals by account are presented in the General Purpose (Combined) Financial Statements, are totals noted as memorandum only?				
3. Do interfund receivables equal interfund payables or are the differences explained in the notes?				

General Fund

4. Are the following financial statements presented:
 - a) Balance sheet?
 - b) Statement of revenues, expenditures and changes in fund balance?
 - c) Statement of revenues, expenditures and changes in fund balance - budget vs. actual?
5. Are the statements prepared on the modified accrual basis?
6. Are significant sources of general fund revenues disclosed?
7. Are expenditures classified by function?
8. Are taxes and other similar receivables appropriately recorded and disclosed net of uncollectable receivables?

Special Revenue Funds

9. Are the following financial statements presented:*
 - a) Balance sheet?
 - b) Statement of revenues, expenditures and changes in fund balances?
 - c) Statement of revenues, expenditures and changes in fund balances - budget vs. actual?**
10. Are the statements prepared on the modified accrual basis?
11. Do the statements disclose the significant revenues and expenditures of each fund?

Debt Service Funds

12. Are the following financial statements presented:*
 - a) Balance sheet?
 - b) Statement of revenues, expenditures and changes in fund balances?
 - c) Statement of revenues, expenditures and changes in fund balances - budget vs. actual?**

	N/A	YES	NO	REF.

*Combining statements where appropriate.
 **For those funds required to adopt a budget.

N/A YES NO REF.

13. Are the statements prepared on the modified accrual basis?

Capital Project Funds

14. Are the following financial statements presented:*

- a) Balance sheet
- b) Statement of revenues, expenditures and changes in fund balances?
- c) Statement of revenues, expenditures and changes in fund balances - budgeted vs. actual? **

15. Are the statements prepared on the modified accrual basis?

16. Are expenditures for capital construction and other expenditures separately classified?

Special Assessment Funds

17. Are the following financial statements presented:*

- a) Balance sheet?
- b) Statement of revenues, expenditures and changes in fund balances?
- c) Statement of revenues, expenditures and changes in fund balances - budget vs. actual? **

18. Are the statements prepared on the modified accrual basis?

19. Are special assessment receivables offset by deferred revenues?

20. Are expenditures for capital construction and bond interest separately classified?

21. Are project commitments included in the reserve for encumbrances?

22. Is the final disposition of any funds closed out during the period disclosed?

N/A	YES	NO	REF.

*Combining statements where appropriate.
**For those funds required to adopt a budget.

Enterprise Funds

- 23. Are the following financial statements presented:*

 - a) Balance sheet?
 - b) Statement of revenues, expenses and changes in retained earnings?
 - c) Statement of changes in financial position?

- 24. Are the statements prepared on the accrual basis?
- 25. Is the enterprise fund's liability for general obligation bonds, if any, included in the enterprise fund's financial statements?
- 26. Are the restricted assets and portion of retained earnings required to be segregated for debt service separately disclosed?
- 27. Is the amount of contributed assets by source separately disclosed as contributions on the balance sheet?
- 28. Are operating and nonoperating revenues and expenses separately classified? (Federal and other grants for operations should be recognized as nonoperating revenues.)
- 29. Are distributions of earnings to other funds recorded as residual equity or operating transfers?

	N/A	YES	NO	REF.

Internal Service Funds

- 30. Are the following financial statements presented:*

 - a) Balance sheet?
 - b) Statement of revenues, expenses and changes in retained earnings?
 - c) Statement of changes in financial position?

- 31. Are the statements prepared on the accrual basis?
- 32. Are the net billings to other funds reported as revenues and the related costs reported as expenses disclosed?
- 33. Are long-term advances segregated from current amounts payable to other funds?

*Combining statements where appropriate.

N/A YES NO REF.

Nonexpendable and Pension Trust Funds

- 34. Are the following financial statements presented:*
 - a) Balance sheet?
 - b) Statement of revenues, expenses and changes in fund balances?
 - c) Statement of changes in financial position?

- 35. Are the statements prepared on the accrual basis?
- 36. Are the principal and income portions of trusts classified in accordance with the trust document?

- 37. If the entity has oversight for its public retirement system funds, are the accounting and financial reporting in accordance with GASB Cod. Sec. Pe5?

Agency Funds

- 38. Is a balance sheet presented?
- 39. Is the balance sheet prepared on the modified accrual basis?
- 40. Is a statement of changes in assets and liabilities presented?

Expendable Trust Funds

- 41. Are the following financial statements presented:*
 - a) Balance sheet?
 - b) Statement of revenues, expenditures and changes in fund balances?
 - c) Statement of revenues, expenditures and changes in fund balances - budget vs. actual?***
- 42. Are the statements prepared on the modified accrual basis?
- 43. Do the financial statements disclose the significant revenues and expenditures of each fund?

General Fixed Assets Account Group

- 44. Is a statement of general fixed assets presented?

	N/A	YES	NO	REF.

*Combining statements where appropriate.
***For those funds required to adopt a budget.

	N/A	YES	NO	REF.
45. Does the statement reflect all general fixed assets recorded by source?				
46. Are land, buildings, equipment, and construction-in-progress separately classified?				
47. Where general fixed assets are depreciated, does the statement show the accumulated depreciation?				
<u>General Long-Term Debt Account Group</u>				
48. Is a statement of general long-term debt presented?				
49. Are general obligation term bonds and serial bonds separately disclosed?				
50. Are other long-term liabilities (accrued vacation, leases, workers compensation, etc.) separately disclosed?				
<u>Other Footnote Disclosures</u>				
51. Is the presentation appropriate and are disclosures adequate regarding the following significant accounting policies:				
a) Basis of accounting applied to each fund?				
b) Definitions of modified accrual as to governmental fund types and of accrual basis as to proprietary fund types?				
c) Description of revenue sources that are treated as "susceptible to accrual" under the modified accrual basis and those that are not?				
d) Accounting for fixed assets concerning:				
(i) Classification in proprietary funds or general fixed assets account group?				
(ii) Valuation basis of fixed assets, including capitalization policies for public domain (infrastructure) general fixed assets?				
(iii) Depreciation methods and lives, including whether depreciation is reported on general fixed assets?				
e) Long-term liabilities related to proprietary funds, nonexpendable trust and pension funds, and Special Assessment Funds are accounted for in those funds? (Long-term liabilities expected to be repaid from governmental funds are accounted for in the General Long-Term Debt Account Group.)				

	N/A	YES	NO	REF.
f) Statement that the "total" columns, if any, on GPFS or CUFS are presented for analysis purposes only?				
g) Basis on which each budget is prepared, including:				
(i) Treatment of encumbrances?				
(ii) Whether appropriations lapse at year end?				
(iii) Explanation of the differences, if any, between the budgetary basis and accrual or modified accrual basis used for financial reporting of governmental funds?				
(iv) Whether presented budgetary information has been amended and, if so, whether amendments were made in a legally permissible manner?				
(v) Level at which expenditures may not legally exceed appropriation for each budget?				
52. Is the presentation appropriate and are disclosures adequate regarding the following:				
a) Definition of the governmental reporting entity?				
b) Classified balance sheets, where appropriate?				
c) Accounting changes?				
d) Retirement plans?				
e) Post retirement health care and life insurance benefits?				
f) Related party transactions?				
g) Nonmonetary transactions?				
h) Major customers?				
i) Economic dependency?				
j) Segment information?				
k) Capital leases?				
l) Detail of the government's property tax calendar, including the lien, levy, due and collection dates?				
m) Statutory maximums for various tax rates and any legal restrictions concerning the use of tax proceeds?				

	N/A	YES	NO	REF.
n) Material noncompliance with finance-related legal and contractual provisions?				
o) Terms or circumstances concerning repurchase or reverse repurchase agreements? (See AICPA publication, <u>Report of the Special Task Force on Audits of Repurchase Security Transactions.</u>)				
p) Valuation allowances?				
q) Restricted cash?				
r) Marketable equity securities?				
s) Other marketable securities?				
t) Receivables:				
(i) Loans or advances to other funds of the governmental units?				
(ii) Taxes receivable, including current delinquent amount?				
(iii) Effect of no interest rates or an inappropriately stated interest rate, where applicable?				
(iv) Receivables related to troubled debt restructurings?				
(v) Other receivables and allowances?				
u) Inventories?				
v) Joint ventures and other investments?				
w) Fixed assets, including changes during the period, and capitalized interest?				
x) Sales-type, direct financing, and operating leases of lessors?				
y) Other assets including intangible assets and deferred charges?				
z) Pledged assets?				
aa) Pooled cash and investment account?				
bb) Short-term liabilities expected to be refinanced?				

	N/A	YES	NO	REF.
cc) Notes payable and other debt:				
(i) Maturities and rates?				
(ii) Important terms and covenants?				
(iii) Effect of no interest rate or an inappropriately stated interest rate?				
(iv) Effect of troubled debt restructurings?				
(v) Effect of early extinguishment of debt?				
(vi) Loans or advances from other funds of the governmental unit?				
(vii) Maturities and sinking fund requirements for the next five years?				
(viii) Changes during the period including debt refunded?				
(ix) Sinking fund contributions required as of year end?				
dd) Employees compensation for future absences and special termination benefits?				
ee) Designation or other restrictions of fund balances or retained earnings?				
ff) Revenues, expenses and expenditures:				
(i) Gains/losses realized and unrealized from marketable equity securities?				
(ii) Income from investments carried using the equity method?				
(iii) Interest cost?				
(iv) Depreciation?				
(v) Discontinued operations?				
(vi) Accounting changes?				
gg) With respect to contingencies and commitments:				
(i) Are loss contingencies disclosed and/or accrued?				
(ii) Are commitments and other contingencies adequately disclosed?				

N/A YES NO REF.

53. Are the financial statements, where appropriate, adjusted for the effects of subsequent events and do they include disclosure of significant subsequent events, whether or not adjustments were made?

N/A	YES	NO	REF.

Summary

54. Does it appear that disclosures in the financial statements are adequate in all material respects?

55. Are the statement formats and disclosures generally consistent with GASB Codification and the AICPA's Audits of State and Local Governmental Units?

II. GENERAL AUDIT PROCEDURES

	N/A	YES	NO	REF.
1. If required by firm policy or governmental requirements, was the auditor's understanding of the client's audit requirements and any additional requirements of the state or local government appropriately documented in a contract, proposal, engagement letter or some other suitable written form?				
2. In planning the audit engagement, did the auditor properly consider:				
a) Matters affecting the industry in which the entity operates, such as accounting practices, economic conditions, government regulations, and technological changes? (SAS No. 22)				
b) Matters affecting the entity's business, such as organization and types of products and services? (SAS No. 22)				
c) Preliminary judgment about materiality levels for audit purposes? (SAS No. 47)				
d) Anticipated reliance on internal accounting controls? (SAS No. 47)				
e) Conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities and management's ability to override controls? (SAS No. 16)				
f) Other audit risks?				
3. If the auditor succeeded a predecessor accountant, did he:				
a) Communicate with the predecessor accountant to ascertain whether there were disagreements between the predecessor accountant and the entity's management on accounting or auditing matters and consider the implications of such matters in accepting the client?				
b) Make other inquiries of the predecessor accountant on significant matters?				
c) Review the predecessor accountant's working papers?				
4. If consideration was given to the work of internal auditors in determining the scope of the examination, was it done in accordance with SAS No. 9?				

	N/A	YES	NO	REF.
5. If the engagement included work performed by joint auditors or by another office, correspondent, or affiliate of the firm:				
a) Do the instructions to the other office or firm appear adequate?				
b) Does it appear that control exercised over the work of others through supervision and review was adequate?				
c) Was there appropriate follow-up of open matters?				
d) In those cases where another firm is used, were appropriate inquiries made as to its independence and professional reputation?				
e) 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?				
6. Did the auditor obtain an understanding of the entity's accounting system, including the control environment and the flow of transactions?				
a) If after completing the preliminary phase of the review the auditor decided not to rely on the internal accounting control system to restrict substantive tests, were his reasons for deciding not to extend his review documented? (SAS No. 43)				
b) If the auditor decided to rely on the system:				
(i) Was there appropriate documentation of the auditor's understanding of the system and the basis for his conclusions about the suitability of its design? (SAS Nos. 43 and 48)				
(ii) Were adequate tests of compliance with internal control procedures made?				
(iii) Were deviations noted during compliance testing appropriately evaluated?				
(iv) Was a final evaluation of internal accounting control documented and considered in the development of the audit program?				

	N/A	YES	NO	REF.
c) If the client used EDP in significant accounting applications, did the study and evaluation of internal control include both general and application controls over EDP activities, including those, if any, at a service organization? (SAS Nos. 44 and 48)				
d) If the auditor relied on the internal accounting controls at a service organization, was a service auditor's report obtained and appropriately considered? (SAS No. 44)				
7. Was a written audit program prepared? (SAS No. 22)				
a) Was it responsive to the needs of the engagement identified during the planning process and was it developed in light of the strengths and weaknesses of internal control? (SAS No. 1, section 320)				
b) Was consideration given to applicable assertions in developing audit objectives and in designing substantive tests? (SAS No. 31, paragraphs 9 through 13)				
c) Were tests considered in light of SAS No. 45 regarding related party transactions?				
d) If conditions changed during the course of the examination, was the audit program modified as appropriate in the circumstances?				
8. If statistical or nonstatistical sampling was used in compliance tests of internal controls (SAS No. 39, paragraphs .31 through .42):				
a) In planning the sampling application, was appropriate consideration given to the specific objective of the compliance test, tolerable rate, allowable risk of overreliance, and likely rate of deviations?				
b) Was the sample selected in such a way that it could be expected to be representative of the population?				
c) Were the results of the sample evaluated as to their effect on the nature, timing and extent of planned substantive procedures?				
d) In evaluating the sample, was appropriate consideration given to items for which the planned compliance test or appropriate alternative procedure could not be performed, for example, because the documentation was missing?				

N/A YES NO REF.

	N/A	YES	NO	REF.
e) Was the documentation of the foregoing considerations in accordance with firm policy?				
9. If statistical or nonstatistical sampling was used for substantive tests of details (SAS No. 39, paragraphs .15 through .30):				
a) In planning the sampling application was appropriate consideration given to the specific audit objective, tolerable error, acceptable level of risk of incorrect acceptance, and characteristics of the population?				
b) Was the sample selected in such a way that it could be expected to be representative of the population?				
c) Were the error results of the sample projected to the items from which the sample was selected?				
d) In evaluating the sample, was appropriate consideration given to items for which the planned substantive tests or appropriate alternate procedures could not be performed?				
e) In the evaluation of whether the financial statements may be materially misstated, was appropriate consideration given, in the aggregate, to projected error results from all audit sampling applications and to all known errors from non-sampling applications?				
f) Was the documentation of the foregoing considerations in accordance with firm policy?				
10. Were the guidelines of SAS 23 considered in the performance of analytical review procedures including:				
a) Investigating significant fluctuations?				
b) Evaluating the effects of the findings on the scope of the examination?				
11. Did the auditor obtain a timely and appropriate letter of representation from management? (SAS No. 19)				
12. Did the auditor obtain timely and appropriate responses from the entity's attorney concerning litigation, claims, and assessments? (SAS No. 12)				
13. Have all procedures called for in audit programs been signed?				

- 14. Have all questions, exceptions, or notes, if any, posed during the audit been followed up and resolved including consideration of views obtained from responsible officials of the organization, program, activity, or function audited concerning the auditor's findings, conclusions, and recommendations?
- 15. Does it appear that appropriate consideration was given to all passed adjustments and to the risk that the current period's financial statements are materially misstated when prior-period likely errors are considered with likely errors arising in the current period? (SAS No. 47)
- 16. If applicable, were adequate tests of compliance with applicable laws and regulations made?
- 17. If evidence exists of situations or transactions that could be indicative of fraud, waste, abuse and illegal expenditures and acts, did the auditor:
 - a) Extend audit steps and procedures to identify the effect on the entity's financial statements?
 - b) Give prompt notice to the appropriate management officials of the recipient above the level of involvement?
- 18. Were all material instances of weaknesses in internal controls and all identified instances of noncompliance with applicable laws and regulations:
 - a) Adequately evaluated and documented?
 - b) Appropriately reported in accordance with applicable standards? (SAS No. 20, GAO's Standards for Audit, pp. 28-29 and OMB A-128, paragraph 13)
- 19. If there is an indication that the auditor, subsequent to the date of his report, became aware that facts may have existed at that date which might have affected his report, had he then been aware of such facts, did he consider the guidance in SAS No. 1, section 561, in determining an appropriate course of action, and does the matter appear to be properly resolved?

N/A	YES	NO	REF.

20. If there is an indication that the auditor, subsequent to the date of his report, concluded that one or more auditing procedures considered necessary at the time of the examination in the then existing circumstances were omitted from his examination of the financial statements, did he consider the guidance in SAS No. 46 in determining an appropriate course of action, and does the matter appear to be properly resolved?

N/A	YES	NO	REF.

III. COMPLIANCE WITH THE REQUIREMENTS OF THE SINGLE
AUDIT ACT OF 1984 (THE SINGLE AUDIT ACT)

	N/A	YES	NO	REF.
1. If required or deemed necessary, is there indication that the firm discussed and agreed on the scope of the engagement with the entity?				
2. Is there evidence in the working papers that the firm appropriately determined whether the schedule of federal financial assistance is complete and contains all required modifications?				
3. Was consideration during the engagement given to guidance issued by the Office of Management and Budget, including Circulars A-128 and A-102?				
4. Did the audit scope of the engagement appropriately encompass the entire operations of the entity or, alternatively, cover departments, agencies or establishments that received or administered federal financial assistance?				
5. As required regardless of whether reliance is placed on the internal control system, did the auditor conduct a study of those systems affecting federal financial assistance to determine whether they provide reasonable assurance that the organization is managing federal financial assistance in accordance with applicable laws and regulations, and did this study include:				
a) Testing whether these internal control systems are functioning in accordance with prescribed procedures?				
b) Examining the recipient's system for monitoring subrecipients and obtaining and acting on subrecipient audit reports?				
6. In determining whether the entity has complied with applicable laws and regulations that may have a material effect on each major federal assistance program, were the following procedures sufficiently performed by the auditor:				
a) Selecting a representative number of charges from each major program and testing for compliance with the requirements of OMB Circular A-87 and A-102, including appropriate consideration, in the aggregate, of projected error results from all audit sample applications and of all known errors from nonsampling applications?				

N/A YES NO REF.

	N/A	YES	NO	REF.
b) Consulting appropriate sources, such as the <u>Compliance Supplement for Single Audits of State and Local Governments</u> , statutes, regulations, and agreements covering individual programs, in order to identify the compliance requirements that apply to each major program and to determine which requirements to test?				
c) Considering, based on the study and evaluation of internal controls over federal assistance programs, whether tests of compliance with the programs' requirements appear adequate to support the auditor's report(s) on compliance?				
7. Were transactions related to other federal assistance programs selected and appropriately tested for compliance with applicable laws and regulations in connection with examinations of financial statements and evaluations of internal control?				
8. If the auditor became aware of illegal acts or other irregularities, were appropriate officials timely notified? (GAO's Standards for Audit, pp. 26, 28-29)				
9. Did the auditor submit the report(s) to the organization audited and to those requiring or arranging for the audit within the required time (thirty days after completion of the audit)? (Subrecipients shall submit copies to recipients that provided them federal financial assistance funds. The reports shall be sent within thirty days after the completion of the audit, but no later than one year after the end of the audit period unless a longer period is agreed to with the cognizant agency.)				
10. Has the auditor established policies or procedures for complying with the additional requirements concerning:				
a) Retaining working papers and reports for a minimum of three years from the date of the audit report, unless the auditor is notified in writing by the cognizant agency to extend the retention period?				
b) Making the working papers available upon request to the cognizant agency or its designee or the GAO, at the completion of the audit?				

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 SAS No. 31. 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.

	N/A	YES	NO	REF.
A. <u>Cash</u>				
1. 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?				
2. Were bank accounts confirmed and were reconciling items existing at the balance sheet date cleared by reference to subsequent statements obtained directly from the bank?				
3. Do the working papers indicate that the following were considered:				
a) Restrictions on cash balances?				
b) Confirmation of bank credit arrangements such as compensating balances?				
c) Review of confirmation responses for indication of related party transactions?				
d) Confirmation of liabilities and contingent liabilities to banks?				
e) Approval of interfund cash transactions?				
f) Confirmation of collateral required of depository institutions for public funds?				
g) Compliance with the laws and regulations governing the deposit of public funds?				
h) Determination that all cash accounts have been identified and appropriately recorded?				
i) Review of repurchase security transactions for consistency with the disclosures on the terms or circumstances of the transactions?				

* Complete only the sections for the key audit areas selected for review. If the section is not completed, indicate that it is not a key area.

N/A YES NO REF.

4. Based on the evaluation of internal accounting control, do the substantive tests of cash appear adequate?

B. Receivables

- 1. Was a summary properly classifying receivables prepared or obtained (i.e., notes and accounts receivables; tax revenues; interfund transactions; and other related party transactions; etc.)?
- 2. Were accounts receivable circularized and appropriate follow-up steps taken, including second requests and alternate procedures?
- 3. 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?
- 4. If a significant number and amount of accounts receivable were not circularized, is there evidence that other auditing procedures were performed?
- 5. Were significant notes receivable confirmed as of the balance sheet date?
- 6. Were the results of confirmation procedures summarized in the working papers?
- 7. Was collateral (if any) for receivables examined with respect to existence, ownership and value?
- 8. Were procedures performed to provide evidence that taxes receivable and the related revenues have been recorded in the correct period in accordance with GASB Cod. Sec. P70?
- 9. Were adequate tests of discounts and allowances made?
- 10. Was the reasonableness of allowances for doubtful accounts covered in the working papers and collectibility of receivables adequately considered?
- 11. Is there evidence in the working papers that inquiry was made and consideration given to whether receivables are pledged, assigned or otherwise encumbered?
- 12. Was receivable work coordinated with tests of revenues, including cut-off tests?
- 13. Were procedures performed to obtain evidence of whether notes receivable are accounted for to reasonably represent the present value of the consideration exchanged and an appropriate interest rate? (APB Opinion No. 21)

N/A YES NO REF.

14. Based on the evaluation of internal accounting control, do the substantive tests of receivables appear adequate?

C. Inventories

1. Was an inventory summary showing basis prepared or obtained (e.g., "cost," "market," "FIFO," etc.)?

2. 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?

3. 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 counts reflected in final inventory)?

4. Were physical inventories observed at all locations where relatively large amounts are located?

5. If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the client's physical inventory are properly reflected in the accounts?

6. Do the working papers indicate that a lower of cost or market test (including consideration of obsolete or slow-moving inventory) was performed?

7. 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?

8. Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?

9. Were appropriate inventory cut-off tests performed?

10. Do the working papers indicate that there were adequate tests of:

a) The clerical accuracy of the compilation of the inventory?

b) Costing methods and substantiation of costs used in pricing all elements?

	N/A	YES	NO	REF.
14. Based on the evaluation of internal accounting control, do the substantive tests of receivables appear adequate?				
C. <u>Inventories</u>				
1. Was an inventory summary showing basis prepared or obtained (e.g., "cost," "market," "FIFO," etc.)?				
2. 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?				
3. 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 counts reflected in final inventory)?				
4. Were physical inventories observed at all locations where relatively large amounts are located?				
5. If perpetual inventory records are maintained, do the working papers indicate that differences disclosed by the client's physical inventory are properly reflected in the accounts?				
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7. 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?				
8. Were inquiries concerning purchase and sales commitments made, including consideration as to any possible adverse effects?				
9. Were appropriate inventory cut-off tests performed?				
10. Do the working papers indicate that there were adequate tests of:				
a) The clerical accuracy of the compilation of the inventory?				
b) Costing methods and substantiation of costs used in pricing all elements?				

	N/A	YES	NO	REF.
11.. Based on the evaluation of internal accounting control, do the substantive tests of inventory appear adequate?				
<u>D. Investments</u>				
1. Was a summary schedule prepared (or obtained) and details examined with respect to description, purchase price and data, changes during the period, income, market value, etc. of investments?				
2. Were all securities either examined or confirmed?				
3. Were gains and losses on disposition of securities properly computed?				
4. Do the working papers reflect consideration of the appropriateness of carrying values of marketable securities and their classification?				
5. Was investigation of carrying value and possible cost impairment of long-term investments made?				
6. Do the working papers indicate that consideration was given to indications that investments were pledged, restricted, or had limitations on immediate use?				
7. For joint venture investments (accounted for on the equity or other method), were financial statements and other information reviewed to support the amounts presented or the footnote disclosures made?				
8. Do the working papers indicate that adequate evidential matter had been accumulated for long-term investments?				
9. Was a review made to determine whether the investments are of the types authorized by law or comply with the applicable statutes and investment policy?				
10. Were income, gains and losses from investments examined for proper allocation to the individual funds?				
<u>E. Prepaid Expenses, Intangible Assets, Deferred Charges, etc.</u>				
1. Were adequate tests made and/or confirmations received for all material:				
a) Prepaid expenses?				
b) Intangible assets?				

	N/A	YES	NO	REF.
c) Deferred charges?				
d) Other?				
2. Were reviews made of the continuing value of other intangible assets?				
3. For prepayments, intangibles and deferred charges, is there adequate support for the deferral and amortization (or lack thereof)?				
F. <u>Fixed Assets</u>				
1. Was a summary schedule by source prepared (or obtained) to show beginning balances, changes during the period and ending balances for:				
a) Property, plant and equipment?				
b) Accumulated depreciation (where applicable)?				
2. Do tests appear adequate with respect to:				
a) Additions by the examination of supporting documents and/or physical inspection?				
b) Retirements, etc. (including examination of miscellaneous income, scrap sales, etc.)?				
c) The adequacy of current and accumulated provisions for depreciation (where applicable)?				
d) Status of idle facilities?				
3. Do the working papers indicate that the auditor considered the possibility that property was subject to liens?				
4. Was a review made to determine that capital expenditures are classified in the proper fund accounts and made in accordance with budgetary requirements?				
5. Based on the evaluation of internal accounting control, do the substantive tests of property, plant and equipment appear adequate?				
G. <u>Liabilities</u>				
1. Were accounts and warrants payable adequately tested for propriety?				
2. Were liabilities properly classified as current or long-term?				

N/A YES NO REF.

- 3. Was an adequate test of subsequent transactions (i.e., cash disbursements, voucher register entries, vouchers, unpaid invoices, etc.) made to determine if any unrecorded liabilities existed that were material individually or in the aggregate in relation to the financial statements?
 - 4. Was the payable work coordinated with the testing of the purchase cut-off?
 - 5. Was consideration given to expenditures and expenses that might require accrual (e.g., pensions, compensated absences--see GASB Cod. Sec. 1600), and to whether accrued expenses were reasonably stated?
 - 6. Were procedures performed to determine whether deferred compensation plans are appropriately disclosed (GASBS No. 2)?
 - 7. Do the working papers include evidence as to compliance with any loan restrictions?
 - 8. Were confirmations for significant notes and bonds payable debt obligations, together with verification of interest rates, repayment period, etc., received?
 - 9. Were audit procedures performed to obtain evidence of whether debt obligations were accounted for to represent reasonably the present value of the consideration exchanged and an appropriate interest rate?
 - 10. Is there evidence that covenants to debt obligations are being complied with?
 - 11. Was an examination made to determine that:
 - a) New debt issues are properly issued as required by the state constitution or state/local statute and are recorded in the correct fund and/or account group?
 - b) Debt restrictions, guarantees and other debt commitments are properly disclosed?
 - 12. Based on the evaluation of internal accounting control, do the substantive tests of liabilities appear adequate?
- H. Deferred Revenue
- 1. Do the working papers indicate that consideration was given to whether the basis of deferring revenue is reasonable and on a consistent basis from year to year?

	N/A	YES	NO	REF.

I. Commitments and Contingencies

1. Do the working papers include indication of the following:

- a) Inspection of minutes of meetings of the governmental body and key committees thereof, provisions of the governmental unit's charter, and applicable statutes and changes therein?
- b) Inspection of contracts, loan agreements, leases, and correspondence from taxing and other governmental agencies, and similar documents?
- c) Accumulation and analysis of confirmation responses from banks and lawyers?
- d) Inquiry and discussion with management (including management's written representations concerning liabilities and litigation, claims and assessments)?
- e) Consideration of past audits of federal financial assistance programs that disclosed questionable or disallowed costs, or instances of noncompliance?

2. Is there indication that procedures were performed to uncover the need for recording or disclosure of events subsequent to the date of the financial statements? (SAS No. 1, sections 560.10, 560.11 and 560.12)

3. Have all material contingencies been properly considered, documented, and reported (SFAS No. 5 and GASB Cod. Sec. C50)?

J. Fund Equity

1. Where appropriate, were authorizations of changes in reserves and designated balances examined?

2. Do the working papers indicate that there were adequate inquiries where appropriate, as to proper classification, description and adequate disclosures of components of fund equity?

K. Revenues and Expenditures/Expenses

1. Were tests of payrolls, including account distribution, made?

2. With regard to pension plans, do the tests made of the expense and liabilities appear adequate?

	N/A	YES	NO	REF.

	N/A	YES	NO	REF.
3. Were revenue and expenditures and/or expenses for the period compared with those of the preceding period and reviewed for reasonableness; were significant fluctuations explained?				
4. Has it been determined that:				
a) Expenditures are in accordance with the approved budget as to amounts and purpose?				
b) Encumbrances are properly identified, supported and recorded?				
c) Indirect cost allocations are in accordance with OMB A-87?				
5. Do the working papers indicate that revenues and interfund transactions have been recognized in the accounting period in which they became available and measurable under the applicable basis of accounting?				
6. Has adequate consideration been given to loss contingencies in accordance with SFAS No. 5?				
7. Based upon the evaluation of internal accounting control did the substantive tests (review, analysis, and testing) of revenues and expenditures/expense appear adequate?				
L. <u>Other</u>				
1. Have leases been examined to determine that capital, sales, and direct financing leases have been properly accounted for? (GASB Cod. Sec. L20)				
2. Were procedures applied to supplementary information in accordance with SAS No. 29, as applicable?				
3. If the work of a specialist was used, did the auditor apply the guidance in SAS No. 11?				
4. Were specific procedures for determining the existence of related parties and examining identified related party transactions applied? (SAS No. 45)				

V. FUNCTIONAL AREAS

A. Independence

1. If any evidence was noted during the review which may indicate a lack of independence (including a lack of objectivity), was the matter identified and appropriately resolved by the firm and its impact appropriately considered?
2. Was timely and appropriate assurance of independence of other firms engaged to audit segments or component units of the engagement obtained?
3. Were the fees for the prior year's services paid prior to issuance of the report for the current engagement?

B. Assigning Personnel to Engagements

1. Were scheduling and staffing requirements identified on a timely basis and approved by appropriate personnel?
2. Based on staff interviews, review of working papers, etc., does it appear that there was a proper mix between experience and training of the engagement personnel in relation to the complexity or other requirements of the engagement and the extent of supervision to be provided?

C. Consultation

1. Was there appropriate consultation and documentation thereof:
 - a) In situations specified by firm policy?
 - b) Where the complexity or unusual nature of the issue warranted it?
2. If the engagement records indicated a difference of opinion between engagement personnel and a specialist or other consultant, was the difference resolved in accordance with firm policy and appropriately documented?
3. Were the considerations involved in the resolution of the differences of opinion mentioned in item 2 above appropriately documented?

	N/A	YES	NO	REF.

N/A YES NO REF.

D. Supervision

1. Were appropriate personnel assigned to the engagement involved in the planning process?
2. Does it appear that audit planning was adequately documented in the working papers, including any changes in the original plan?
3. Did the partner (or manager) approve the overall audit plan (including audit program) as the final planning step and convey his approval or modifications to the engagement staff?
4. 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?
5. 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:
 - a) Planning checklist?
 - b) Review of internal control?
 - (i) Manual system?
 - (ii) EDP system?
 - c) Audit work programs?
 - d) Financial statement disclosures?
 - e) Working papers and financial statement reviews?
6. If standardized forms, etc., were not used for any of the above areas, is there other adequate substitute documentation?
7. Were the firm's guidelines for the form and content of audit working papers complied with?
8. Were differences of professional opinion resolved in accordance with firm policy?
9. Does it appear that adequate supervision was provided considering the background and experience of personnel assigned to the engagement?

N/A	YES	NO	REF.

	N/A	YES	NO	REF.
10. If used, were scientific audit tools (e.g., computer auditing, statistical sampling, etc.) properly evaluated by persons with training in these areas? (SAS No. 48)				
11. 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?				
12. Was an appropriate pre-issuance review made in accordance with firm policy?				
13. Does it appear that planning and supervision were in compliance with SAS Nos. 22 and 47 and interpretations of SAS No. 22?				
<u>E. Advancement</u>				
1. If required by firm policy, have the staff on this engagement been appropriately evaluated based on the work performed?				
<u>F. Acceptance and Continuance of Clients</u>				
1. Does it appear that the firm's guidelines for acceptance and continuance of clients were complied with?				

VI. EXPLANATION OF "NO" ANSWERS AND OTHER COMMENTS

The following pages are provided for your comments on all "no" answers or to expand upon any of the "yes" answers. All "no" answers must be thoroughly explained and reviewed with the engagement partner.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments*</u>
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* The nature of the disposition of comments may vary, such as:

- Note MFC number as a reference to the specific MFC form which should indicate the disposition of the matter.
- Note "resolved" and the manner of resolution.
- Note "not significant" to indicate a "no" answer is appropriate but that the matter is not significant enough to warrant the preparation of an MFC form.

<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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<u>Page Number</u>	<u>Question Number</u>	<u>Explanatory Comments</u>	<u>Disposition of Comments</u>
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VII. CONCLUSIONS

EXPLAIN BELOW THE REASONS FOR ANY "YES" ANSWERS. BE SPECIFIC.

Based on the work performed, did anything come to your attention that caused you to believe that:

1. The firm did not perform the engagement in all material respects in accordance with generally accepted auditing standards (see AU 390 and ET 202) and other applicable standards including, where applicable, the requirements of the Single Audit Act? YES* NO

2. The financial statements did not conform with generally accepted accounting principles (or where applicable, a comprehensive basis of accounting other than GAAP) in all material respects and the auditor's report was not appropriately modified (see AU 561 and ET 203)? YES* NO

3. The auditor's reports, including all reports required under the Single Audit Act, were not appropriate in the circumstances? YES* NO

4. The documentation on this engagement does not support the firm's opinion on the financial statements? YES NO

5. The firm did not comply with its policies and procedures on this engagement in all material respects? YES NO

* If this question is answered "yes," see additional guidance contained on page 2-20 of the SECPS Manual (1986 edition) or pages 2-20 and 2-21 of the PCPS Peer Review Manual (1986 edition).

MATTER FOR FURTHER CONSIDERATION

CONTROL NO. _____

REVIEWER'S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES ___ NO ___

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

REVIEWER'S ADDITIONAL COMMENTS	<u>Check One:</u> Design	_____
	Performance	_____
	Compliance-Membership	_____
	Compliance-Other	_____
	Documentation	_____

(Note: This sample MFC form has been reduced in size. The actual form is 8 1/2" x 14" and is available from the Quality Control Review Division staff.)

REVIEW CAPTAIN'S COMMENTS, IF ANY

REASON:

FIRM _____
OFFICE CODE NO. _____

CONTROL NO. _____

Signatures

Dates

Engagement Partner _____

Reviewer _____

Team Captain _____

Compliance Questionnaire

Engagement

Section Element _____
Program Step _____

No. _____
Checklist Page _____
Program Step _____

INSTRUCTIONS FOR USE OF MFC FORMS

1. If an MFC was prepared during the course of the review and subsequent information indicates that the form should not have been prepared, it may be discarded. (For example, an MFC stated that no letter was received from legal counsel, but a letter that meets the requirements of professional standards had been received and misfiled and was subsequently found. On the other hand, if an MFC is prepared for an item which is later determined to be immaterial, it should not be discarded. For example, a representation letter from a client required by firm policy was not obtained, but the reviewer was satisfied with the engagement partner's reasoning for not obtaining it.)
2. Number MFCs consecutively (top and bottom) to establish correspondence between top and bottom stub.
3. MFCs relating to both functional and engagement review areas should be sorted by nature of comment.
4. Do not detach control stub until POB oversight is completed. (The stub should be detached only if the SEC accesses the working papers.)