1976

Discussion Draft: Proposed Plan for Voluntary Quality Control Review Program for CPA Firms with SEC Practices, February 19, 1976

American Institute of Certified Public Accountants. Committee on Self-Regulation

DISCUSSION DRAFT

PROPOSED PLAN FOR VOLUNTARY QUALITY CONTROL REVIEW PROGRAM FOR CPA FIRMS WITH SEC PRACTICES

FEBRUARY 19, 1976

Issued by the Committee on Self-Regulation of the American Institute of Certified Public Accountants

AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036

A MESSAGE TO THE MEMBERSHIP

This document describes one of the major proposals to be considered at the spring meeting of the Institute's Council on May 3-5.

The proposal was considered at length by the Board of Directors on February 19 and led to the adoption of the following resolution:

> RESOLVED, that the Board of Directors endorses the Plan for Voluntary Quality Control Review Program for CPA Firms with SEC Practices as presented to it at its meeting on February 19, 1976, and recommends that the Plan be discussed by the Council at its Spring 1976 meeting and that Council be asked whether it wishes to vote at that meeting on implementation of the Plan. If that vote is affirmative, the Board recommends adoption of the Plan at that meeting.

As indicated in Samuel A. Derieux's transmittal letter, the proposal has been discussed throughout the year at two regular meetings of Council, at a series of regional meetings of Council, at state society and chapter meetings, at scores of specially organized members' forums, and at meetings of the five advisory committees representing various segments of the membership. These sessions, as noted by Mr. Derieux, have resulted in substantial changes in the proposal as originally presented. It is, therefore, particularly vital that those familiar with the earlier drafts should carefully review this latest version.

Because of its far-reaching importance to the profession, however, it deserves the thoughtful attention of every member.

I strongly urge you to undertake a thorough study of the proposal—and then to communicate your views to your representatives on Council prior to its spring meeting.

IVAN O. BULL
Chairman of the Board

AICPA

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Ivan O. Bull, CPA
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Dear Ivan:

The members of the committee on self-regulation have considered carefully the many comments and suggestions which have been received as a result of six regional Council meetings, member forums, and the distribution of the proposed quality control plan to other interested parties. After taking into consideration the various opinions received from many sources, the committee has revised the plan and made a number of significant changes, the most important of which I will outline briefly in this letter.

The vast majority of Council members attending the regional meetings expressed the belief that we should proceed without undue delay in adopting some form of quality control/peer review program. They recognize that the pressures on our profession are such that we must take positive action to demonstrate our ability to regulate our own profession effectively.

Some Council members, and others from whom we have heard, have expressed the opinion that there is a sense of urgency in moving forward on this program. Others feel that more time is needed to study the implications of such a program and to develop the standards by which the quality control procedures of firms are to be judged. Out of these conflicting views we discern a consistent pattern. Those who express a need for urgency are generally those firms with SEC practices or those who recognize that it is in the area of SEC practice that our credibility with the public at large is most crucial. Those who believe we should take more time to study the implications of the program and to develop the standards for the program are generally those practitioners who do not have SEC practices.

The suggestion was made by a number of practitioners that the quality review program which is under consideration by the self-regulation committee might be oriented to SEC practice. This suggestion seems to provide a means of allowing additional time to develop the standards for quality control procedures in firms not having SEC practices, while moving ahead with a program designed primarily for those firms which do have such a practice.

The committee decided at its meeting on January 26, 1976, to recommend moving ahead with a new quality control review program for those firms which have SEC

practices or which have a desire to prepare for SEC practice. This new program is outlined in the committee report which accompanies this letter.

The committee also decided to recommend that the present local firm quality review program be adapted to fill the needs of firms not engaged in SEC practice. In addition, the committee recommends with regard to both programs that appropriate standards for quality control and reviews thereof be developed for approval by the auditing standards executive committee.

The committee concluded that the terms "participants in the program" or "participating firms" should be used in lieu of "registered" and "registration." This change in terms was adopted to avoid the expressed fears that "registered" would be used as a title such as "registered CPA firm."

We respectfully request that time be provided at the Board of Directors meeting on February 19-20 for discussion of this revised plan. If the Board of Directors acts affirmatively on the plan, we recommend that the plan be presented at the next meeting of Council. After presenting the plan to Council, we would ask if it is prepared to vote on the plan at that time. If the response is affirmative, we would proceed to a vote on the merits. If it is not, we plan to continue our work and return for a vote in the fall.
If the Board decides to proceed, the plan should be widely distributed as promptly as possible so that all of those who have expressed an interest in its progress will be aware of the revisions which have been made.

On behalf of the members of the committee on self-regulation, I want you to know how much we appreciate the opportunities we have had to discuss the proposed plan with members of Council and with other practitioners and how much we appreciate the thoughtful response which we received as a result of the exposure of the draft document. Some of the comments on that draft were positive and some were negative, but all were helpful.

Sincerely yours,

Samuel A. Derieux, Chairman

Committee on Self-Regulation

Samuel A. Derieux
Willard G. Bowen
David M. Culp
Arthur J. Dixon
Walter E. Hanson
William S. Kanaga
Joseph F. Spilberg
William D. Sprague

PROPOSED PLAN FOR VOLUNTARY QUALITY CONTROL REVIEW PROGRAM FOR CPA FIRMS WITH SEC PRACTICES

I. Introduction

Since 1972, the Institute has made available to local CPA firms a quality review program providing independent review of selected audit engagements and engagements for unaudited financial statements. That program was not designed for larger firms, most of whom have clients who must file with the Securities and Exchange Commission. Most such firms have developed procedures for in-house review designed to test the quality of the firm's work; others have arranged for evaluation of their practice by another firm or by a separate review committee.

The committee on self-regulation has concluded that the Institute should make available to those firms which have an SEC practice or which have a desire to prepare for such a practice, a program of independent quality control review as outlined in the following pages. The committee recommends that the program be presented to Council for prompt adoption and implementation.

The committee further concluded that the present local firm quality review program which is designed to meet the needs of firms not engaged in SEC practice should be expanded.

The committee recommends with regard to both programs that appropriate standards for quality control and reviews thereof be developed for approval by the auditing standards executive committee.

II. Objective of Program

The objective of the proposed program is to provide added assurance as to the quality control standards for the audit practices of the participating firms and, as a consequence, to improve the performance and credibility of the profession.

The program will provide direct benefits to participating firms through the application of objective outside reviews to their quality control policies and procedures. It is designed for firms with SEC practices because this area of practice has borne the brunt of concern resulting from publicity about litigation against auditors.

The committee recognizes that the program cannot provide absolute assurance that all breaches of audit performance will be avoided in the future. However, it can be expected to reduce the number of such failures that might otherwise occur.

III. General Description

The quality control review program would be voluntary and would have the following features:

1. The program would be open to CPA firms with SEC practices or which have a desire to prepare for such practice.
2. A quality control review committee would be appointed to administer the program.
3. Participation in the program would be initiated by a firm's filing a letter of intent with the Institute. The firm would state in the letter that it will comply with the provisions of the program and that it will undergo a review of its documented quality control policies and procedures.
4. Reviews would be conducted in accordance with standards approved by the auditing standards executive committee. A review would be carried out by one of the following methods at the election of the firm to be reviewed:
   a. A review team appointed by the committee.
   b. A CPA firm engaged by the firm under review.
   c. Some other form of independent review satisfactory to the committee, such as an acceptable plan administered by a state society of CPAs.
5. A review would include examination of audit working papers to the extent necessary to determine whether the firm's quality control policies are in compliance with professional standards. The depth of review of working papers for particular engagements would be left to the judgment of the reviewers. The review would be directed primarily to the key areas of an audit to determine whether in those areas there were well-planned and appropriately executed auditing procedures that were documented in accordance with the firm's policies.
6. A firm electing to use a committee-appointed review team would agree to provide qualified personnel for the panel from which reviewers for the reviews of other firms would be drawn.
7. Upon completion of the review, the review team or reviewing firm would prepare a short report stating the results of the review. The report would be submitted to the reviewed firm which, at its option, would submit the report to the Institute. Such reviews would have to be

conducted at least once every three years for the firm to continue as a participant.

8. For administrative purposes, the Institute will maintain a record of firms filing letters of intent and a record of firms submitting reports on the results of reviews. These records would be available to the public upon request.

9. At its option, a firm may advise its clients that it has filed a letter of intent and, subsequently, the results of the review and that the report of the review is on file at the Institute. Results of reviews would not be released until the end of an interim period which would provide time for the completion of reviews of firms participating in the program at its outset.

10. To place the program on a self-supporting basis, the committee would set the following fees to be charged firms:
    a. An annual participation fee based on the number of the firm's professional personnel. The fee, which is expected to be modest, would cover the administrative cost of the program.
    b. Fees for reviews conducted by committee-appointed review teams. These fees would be based on the per diem rates for the reviewers and their out-of-pocket expenses. Participating firms electing to be reviewed by other firms would make their own fee arrangements.

The committee recognizes that there are differences in the size, structure, and clientele of CPA firms and that quality control procedures will vary according to those characteristics. This program should be administered in such a way, however, as to provide a degree of confidence that the participating firms are adhering to applicable professional standards even though they may have varying policies and procedures to achieve such adherence.

The program is not intended as a means for taking disciplinary action since it is directed toward reviewing the systems of quality control of firms for their compliance with professional standards rather than the performance of individual professional staff members. It relies on the firms to maintain a continuing surveillance of the performance of their professional staff members. However, in the event serious violations of technical standards are encountered as a by-product of the program and the reviewed firm has not taken appropriate corrective action, the reviewers would not be precluded from referring such information to the Institute's professional ethics division. Such reference would be discretionary and any decision in that regard would be made in light of the circumstances.

IV. Administrative Organization

A quality control review committee would be appointed and charged with establishing the policies for the administration of the program. As experience is gained in conducting the program, it is anticipated that the committee would modify and revise the program to increase its effectiveness. However, the basic features of the plan could be modified only by Council.

The committee would be comprised of members in public practice selected to provide a broad representation of the profession. A qualified staff would be recruited to work under the direction of the committee and to assist in carrying out its responsibilities.

The committee would also be responsible for developing a program to acquaint the business community and general public with the program and the significance of a firm's participation.

The possibility exists that disagreements may arise between a firm and the reviewing firm or review team. In this event, the committee would attempt to resolve the dispute and, if the matter cannot be resolved by the parties, it would be referred for decision to an ad hoc review committee appointed by the chairman of the Institute's Board of Directors.

V. General Procedures

At the inauguration of the program, some months would be needed for firms to arrange for their field reviews. Therefore, responses to inquiries regarding the status of participating firms would be limited to the statement that they had filed a letter of intent, but that no information about completion of field reviews will be released by the reviewed firms or the Institute until the end of this interim period.

Letter of Intent. A firm would advise the committee of its decision to participate in the program by filing a letter of intent with the following features:

1. Advice as to the method of review selected.
2. The date by which the firm's review will be started and the estimated completion date.
3. A statement that the firm has documented policies and procedures for the quality control of its audit practice.

A firm may terminate its participation in the program at any time. Also, a firm's participation would be terminated if it failed to submit a report on the results of its field review within the time period specified under the program and consistent with the standards of the program. After termination, the firm could no longer refer to itself as a participating firm although it may apply at any time to renew its participation.

VI. Quality Control Policies and Procedures

A firm's quality control policies and procedures affect the quality of work in the firm's audit engagements. While aspects of quality control apply to all firms, the extent to which policies and procedures apply will depend on a variety of

factors, such as the size, number of offices, and organizational structure of the firm and its philosophy and practice as to the degree of operating autonomy appropriate for its people. A participating firm will be required to make available to the review team or reviewing firm its policies and procedures for quality control.

Attached as Appendix A are examples of policies and procedures for a large firm. Smaller firms might implement their quality control measures by means of policies and procedures such as those suggested in Appendix B. Illustrative sets of appropriate policies and procedures for firms of various sizes would be prepared for the guidance of firms that may wish to utilize them.

In developing its quality control policies and procedures, a firm must be guided by Statement on Auditing Standards No. 4, "Quality Control Considerations for a Firm of Independent Auditors." This Statement suggests the following elements of quality control:

1. *Independence.* Policies and procedures to provide reasonable assurance that persons at all organizational levels maintain independence in fact and in appearance.
2. *Assigning Personnel to Engagements.* Policies and procedures for assigning personnel to engagements to provide reasonable assurance that audit work will be performed by persons having the degree of technical training and proficiency required in the circumstances.
3. *Consultation.* Policies and procedures for consultation to provide reasonable assurance that auditors will seek assistance on accounting and auditing questions, to the extent required, from persons having appropriate levels of knowledge, competence, judgment, and authority.
4. *Supervision.* Policies and procedures for the conduct and supervision of work at all organizational levels to provide reasonable assurance that the work performed meets the firm's standards of quality.
5. *Hiring.* Policies and procedures for hiring to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently.
6. *Professional Development.* Policies and procedures for professional development to provide reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned.
7. *Advancement.* Policies and procedures for advancing professional personnel to provide reasonable assurance that the people selected will have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.
8. *Acceptance and Continuance of Clients.* Policies and procedures for deciding whether to accept or continue a client in order to minimize the likelihood of association with a client whose management lacks integrity.
9. *Inspection.* Policies and procedures for inspection to provide reasonable assurance that the other procedures designed to maintain the quality of the firm's auditing practice are being effectively applied.

VII. Field Reviews

Field reviews would be designed to obtain assurance that a firm's quality control policies and procedures conform to professional standards, are adequately documented, and are being complied with. All participating firms would be required to undergo a field review at least once every three years to retain their status as participants.

Reviews would be conducted at the mutual convenience of the reviewed firm and the reviewers. To accommodate the normal business cycle of the firms, it is anticipated that the reviews would probably be conducted during the months of April through December.

It would be the responsibility of the review team or reviewing firm to review the quality control policies and procedures to determine that they provide measures reasonable for the particular firm. The firm would be advised of apparent deviations, if any, from specified standards. The reviewed firm would be given an opportunity to refute or correct such apparent deviations before completion of the review and issuance of the report.

The field reviews would be designed, in part, to ascertain that the firm's internal system of quality control is operating as represented. To accomplish this objective, initial attention would be directed to a review of documentation in the firm's administrative files, which in the case of multi-office firms would normally be located at the executive office. For example, the executive office would probably have statistics, correspondence, and other data relative to procedures regarding client acceptance and retention, hiring, training, promotion, independence, and inspection. In addition, the executive office would probably have data useful in judging compliance with the firm's policies with respect to supervision and review and consultation.

Client files relating to selected audit engagements, which would normally be located in practice offices, would be reviewed. The depth of the review of the working papers for particular engagements would be decided by the reviewers. The review would be directed primarily to the key areas of an audit to determine whether in those areas there were well-planned and appropriately executed auditing procedures that were documented in accordance with the firm's policies.

On occasion, an office of a firm may have legitimate reasons for not permitting the files for a selected engagement to be examined. For example, the financial

statements of an engagement may be the subject of litigation or investigation by a governmental authority or the firm may have been advised by the client that it objects to exposure of the working papers to others, such as the review team. If those making the field review are not satisfied as to the legitimacy of the explanation, the matter would be reported to the firm's managing partner.

In the case of a multi-office firm, the degree of centralization of the firm's quality control would affect the relative amount of time to be spent at the executive or practice offices. Practice offices visited should be generally representative of the firm's overall audit practice.

Committee-Appointed Review Teams. Review teams appointed by the committee would be drawn from the panel of reviewers volunteered by the participating firms. Each team would be headed by a team captain who would organize the review according to general guidelines prepared by the committee, supervise the reviewers, and prepare a report on the findings of the review. The firm to be reviewed would be advised in advance of the names of the reviewers and their firms.

Participating firms electing to undergo field tests conducted by committee-appointed review teams would be required to nominate qualified personnel from their firms for the reviewer panel. Only audit partners and audit managers knowledgeable about current SEC practice would be eligible for the panel. Managers would be utilized only where subject to the supervision of a partner. A profile would be submitted for each nominee indicating the extent of audit experience, SEC experience, participation in his firm's internal quality review programs, present responsibilities, and industry or other special expertise.

The members of a review team would be drawn from the reviewer panel. Normally only one partner from a firm would be selected for a field test team. In selecting reviewers, consideration would be given to their experience with firms and practice units of comparable size and types of practice. Reviewers will be required to adhere to all standards applicable to professional engagements, including confidentiality of client relationships. Firms being reviewed by review teams would be required to pay the per diem fees of the reviewers and their out-of-pocket travel expenses. The committee would set standard per diem fees for this purpose. The fees would not be so large that they might become a reviewer's motive for participating in the program, but would reasonably compensate the reviewers' firms for the services of their partners and managers. It is expected that reviewers would receive fees considerably less than their standard professional fees for services rendered to clients. The team captain would receive a slightly higher fee in view of his greater responsibility. These lower fees can be justified on the grounds that the program would be beneficial not only to the participating firms, but also to the accounting profession as a whole and to the individual reviewers who would gain an educational experience from reviewing the procedures of other firms.

The aggregate fee and out-of-pocket travel expenses would be paid by the reviewed firm to the Institute for disbursement to the firms of the members of the review team.

A reviewer would not be assigned to the review of an executive or practice office in the same geographic area in which he is engaged in public practice. If only one individual is designated by the team captain to visit a practice office, he must be a partner. However, where more than one team member is involved in a visit to either an executive or practice office, the team members should be from different firms and a partner should be designated to be in charge of the inspection.

For those reviews conducted by a committee-appointed review team, working papers would be retained only until such time as the report on the review has been filed with the Institute or the period for filing the report has elapsed, whichever is earlier.

CPA Firm-Conducted Field Reviews. A participating firm may elect to have the field review of its procedures conducted by another CPA firm instead of by a committee-appointed review team. The reviewing firm which would be expected to have an SEC practice would follow applicable standards for the conduct of field reviews.

The CPA firm conducting the review would be independent of the reviewed firm. For example, reciprocal reviews by firms would not be permitted.

As is the case with a committee-appointed review team, the reviewing firm would be responsible for determining that the quality control policies and procedures provide measures reasonable for the particular firm and that they are being complied with.

Field Review Reports. Upon completion of the field review, the review team or the reviewing firm would report on the results of the review to the reviewed firm and provide a written short-form report indicating whether or not the firm was complying with the profession's quality control standards.

The reviewed firm, at its option, would submit the short-form report to the Institute to maintain the firm's participant status. A copy of the report would be maintained in the files of the Institute and be available for public inspection.

Failure to file a report with the Institute within a three-year period would cause a firm to be dropped as a participant. Termination of a firm's participation would not be publicized.

Appendixes

The following appendixes are presented as examples of policies and procedures that may be required of firms as part of the standards of quality control. It is recognized that a firm's policies and procedures will depend on a variety of factors, such as the size, number of offices, and organizational structure of the firm.

APPENDIX A

EXAMPLES OF QUALITY CONTROL POLICIES AND PROCEDURES FOR MULTI-OFFICE FIRMS

This appendix provides examples of quality control policies and procedures for multi-office firms with SEC clients. Specific policies and procedures of a particular firm would be based on that firm's overall system of quality control and would not necessarily include all of the examples listed.

Independence

1. Notification to personnel as to the names of audit clients and their affiliates having publicly held securities or, as an alternative, reports from personnel as to security holdings.
2. Periodic confirmation with personnel that prohibited relationships with clients do not exist.
3. Records showing which partners and employees were previously employed by clients or have relatives holding key positions with clients.
4. Emphasis on independence of mental attitude in training programs and in supervision and review of work.
5. Prohibition of partners and employees from accepting personal benefits from clients which would impair the credibility of their independence in the minds of reasonable persons familiar with the facts.
6. Confirmation of independence of personnel upon acceptance of a new client subject to SEC requirements.

Assigning Personnel to Engagements

1. Advance planning for the total personnel needs for the firm's audit engagements on an overall basis and for individual practice offices.
2. Timely identification of the staffing requirements of specific engagements.
3. Time budgets to establish manpower requirements and to schedule field work.
4. Procedures for evaluation of an individual's experience and background before assignment to engagements.
5. Procedures for determination that an audit team has adequate overall competence in the industry or industries of the client.
6. Requirement for rotation of partners and staff on recurring engagements for specific clients.

Consultation

1. A research staff to assist in the resolution of practice problems.
2. Designation of individuals having expertise in SEC matters to provide advice for reports to be filed with the Commission.
3. Designation of individuals with expertise in particular industries to provide advice for audits of companies in those industries.
4. Maintenance of adequate technical research libraries at executive office and practice offices.
5. Referral of questions to a division or group in the AICPA or state CPA society established to handle technical inquiries.
6. Requirement that appropriate use be made of available consultants and reference services.

Supervision

1. Instructions as to the adequacy of documentation and appropriateness of audit programs in relation to systems of internal control.
2. Development and use of audit forms, checklists, and questionnaires.
3. Review of working papers by qualified supervisory personnel.
4. Pre-issuance reviews of certain reports by partners not otherwise associated with the engagements.
5. Requirement that memoranda and working papers explain the basis for resolution of difficult accounting and auditing problems.
6. Requirement that federal income tax provision and liability be reviewed by tax department.

Hiring

1. Standards or objectives as to minimum academic preparation and accomplishment for recruiting at beginning levels.
2. Standards and objectives as to practical experience for advanced positions.
3. Background investigations of new personnel.
4. Special procedures for new personnel obtained from other than the usual recruitment channels, such as by recruitment of higher level personnel or through merger or acquisition of an accounting practice, to assure that they become familiar with and conform to the firm's policies and procedures.
5. Evaluation of overall recruiting results to determine whether hiring standards are being maintained.

6. Instructions to persons involved in recruiting as to the firm's recruiting objectives.

Professional Development

1. Instruction of personnel during the performance of engagements.
2. Requirement that personnel attend training sessions conducted by the firm, by a college or university, by the AICPA or a state society, or by other organizations whose courses are accepted as meeting continuing professional education requirements.
3. Distribution of manuals on the firm's policies and procedures to professional personnel.
4. Distribution of statements on current developments in accounting and auditing to professional personnel.
5. Programs for the development of specialists, such as industry specialists or computer audit specialists.
6. Requirement that all newly employed professional personnel attend a professional orientation program.
7. Periodic review of the firm's professional development programs to determine whether they are meeting the firm's needs adequately and are providing for the professional growth of individuals.

Advancement

1. Periodic appraisals of the work of assistants.
2. Advice to personnel of their evaluations and discussion of their overall progress, strengths, and weaknesses.
3. Committees of partners to review and pass on the qualifications of individuals being considered for promotion.
4. Encouragement to pass the CPA examination.

Acceptance and Continuance of Clients

1. Review of prior year's financial statements before acceptance of new clients.
2. Inquiries of third parties having business relationships with a proposed client.
3. Inquiry of the predecessor auditor to ascertain whether there were accounting or auditing disagreements or other problems with the client.
4. Evaluation of the firm's ability to service a potential client properly with particular reference to industry expertise and size of engagement.
5. Periodic evaluations of existing clients and when significant changes in management or ownership or other events suggest that reevaluations would be appropriate.
6. Authority for the acceptance or rejection of potential new clients vested in designated partners.

Inspection

1. Post-issuance review of reports.
2. An inspection program under which teams visit practice offices to review audit engagements.
3. Submittal of written inspection reports to the managing partner.
4. Evaluation of the overall quality control program for its effectiveness based on the findings of the inspections.
5. In lieu of an in-house inspection program, utilization of a quality review program of an association of CPA firms, the AICPA, or a state society.

APPENDIX B

EXAMPLES OF QUALITY CONTROL POLICIES AND PROCEDURES FOR LOCAL CPA FIRMS

This appendix provides examples of quality control policies and procedures for local firms. Specific policies and procedures of a particular firm would be based on that firm's overall system of quality control and would not necessarily include all of the examples listed. Some aspects of the policies and procedures for multi-office firms set forth in Appendix A would be applicable to single-office firms of substantial size with SEC clients.

Independence

1. Periodic confirmation with personnel that prohibited relationships with clients do not exist.
2. Emphasis of independence of mental attitude in supervision and review of work.
3. Avoidance of assignment of partners and employees to engagements which would raise independence or conflict of interest problems.
4. Prohibition of partners and employees from accepting personal benefits from clients which would impair the credi-

bility of their independence in the minds of reasonable persons familiar with the facts.

Assigning Personnel to Engagements

1. Advance planning for the total personnel needs for the firm's audit engagements on an overall basis.
2. Timely identification of the staffing requirements of specific engagements.
3. Time budgets to establish manpower requirements and to schedule field work.
4. Evaluation of an individual's experience and background before assignment to an engagement.

Consultation

1. Maintenance of an adequate technical research library.
2. Referral of questions to a division or group in the AICPA or state CPA society established to handle technical inquiries.
3. Consultation arrangements with other CPA firms having special expertise.

Supervision

1. Instructions as to the adequacy of documentation and appropriateness of audit programs in relation to systems of internal control.
2. Use of audit forms, checklists, and questionnaires.
3. Review of working papers by qualified supervisory personnel.
4. Pre-issuance reviews of certain reports by partners not otherwise associated with the engagements.
5. Advice to clients that the firm must review before publication all financial statements associated with the firm's report.
6. Requirement that memoranda and working papers explain the basis for resolution of difficult accounting and auditing problems.

Hiring

1. Standards or objectives as to academic preparation and practical experience for new personnel.
2. Background investigations of new personnel.
3. Instructions to persons involved in recruiting as to the firm's recruiting objectives.

Professional Development

1. Instruction of personnel during the performance of engagements.
2. Requirement that personnel attend training sessions conducted by the AICPA or a state society, by a college or university, or by organizations whose courses are accepted as meeting continuing professional education requirements.
3. Distribution to personnel of professional literature on current developments in accounting and auditing.
4. Orientation of all newly employed professional personnel.
5. Records of training sessions attended by personnel and periodic review of those records to determine that the sessions are meeting the firm's needs adequately and providing for the professional growth of the individuals.

Advancement

1. Periodic appraisals of the work of assistants.
2. Advice to personnel of their evaluations and discussion of their overall progress, strengths, and weaknesses.
3. Encouragement to pass the CPA examination.

Acceptance and Continuance of Clients

1. Review of prior year's financial statements prior to acceptance of new clients.
2. Inquiries of third parties having business relationships with a proposed client.
3. Evaluation of the firm's ability to service a potential client properly with particular reference to industry expertise and size of engagement.
4. Periodic evaluations of existing clients and when significant changes in management or ownership or other events suggest that reevaluations would be appropriate.
5. Authority for the acceptance or rejection of potential new clients vested in a designated partner.

Inspection

1. Post-issuance review of reports.
2. Submission of reports for review to the practice review committee of a state society or the AICPA.
3. Utilization of a quality review program of an association of CPA firms, the AICPA, or a state society.

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