

# ▶ Quality Control System

For Audit Leadership and Staff

May 2011 Revision



## Introduction to the Firm's System of Quality Control

This introduction consists of three sections:

- A. Background, Purpose and Firm Status
- B. Terms Used In This Document
- C. Documentation and Communication of Policies and Procedures

### A. Background, Purpose and Firm Status

The purpose of this document is to establish standards and provide guidance for Community CPA & Associates Inc ("the firm" or "our firm") to establish and maintain quality control (QC) for its accounting and auditing practice.

This document covers elements of quality control and other matters essential to the effective design, implementation, and maintenance of the system.

This document is being made in conjunction with the AICPA Code of Professional Conduct.

The firm's system of quality control is designed to provide the management with reasonable assurance that the firm and personnel comply with professional standards and applicable regulatory and legal requirements, and that we, as a CPA firm, issue reports that are appropriate in the circumstances.

The system of quality control consists of policies designed to achieve these objectives and the procedures necessary to implement and monitor compliance with those policies.

Our firm currently has 8 professional staff members with one CPA partner and two directly involved in audit services. The policies and procedures in this document are developed in a manner that allows for the firm's further expansion.

The firm's current personnel status:

- 1 CPA Partner who is licensed in both Iowa and Arizona
- 7 non-CPA Professional staff
- One office facility in Des Moines, Iowa
- One centralized computer file server and one virtual office system with a suite of tax, accounting and audit software
- Practice areas include tax, audit, accounting/bookkeeping and business consultation

Any changes in personnel may affect the policies and procedures developed in this booklet. This booklet is reviewed and updated at least once a year, and may be reviewed and updated more frequently whenever deemed appropriate or necessary by the firm management.

## B. Terms Used In This Document

In this section, the following terms are defined which are used throughout this document:

- a) *Accounting and auditing practice.* A practice that performs engagements covered by this section, which include audit, attestation, compilation, review and any other services for which standards have been established by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under Rules 201 or 202 of the AICPA Code of Professional Conduct (ET sections 201-202). Although standards for other engagements may be established by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an accounting and auditing practice.
- b) *Engagement documentation.* The record of work performed, results obtained, and conclusions the practitioner reached, also known as working papers or work papers.
- c) *Engagement partner.* An individual responsible for supervising engagements covered by this section and signing or authorizing an individual to sign the report on such engagements, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- d) *Engagement quality control review.* A process designed to provide an objective evaluation, by an individual or individuals who are not members of the engagement team, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
- e) *Engagement quality control reviewer.* A partner, other person in the firm, qualified external person, or a team made up of such individuals, none of whom is part of the engagement team if possible, with sufficient and appropriate experience and authority to perform the engagement quality control review.
- f) *Engagement team.* All personnel performing the engagement, excluding those who perform the engagement quality control review if applicable. The engagement team (i) includes all employees and contractors retained by the firm who perform engagement procedures, irrespective of their functional classification (for example, audit, tax, or management consulting services) and (ii) excludes specialists as discussed in AU section 336, Using the Work of a Specialist, and individuals who perform only routine clerical functions, such as word processing and photocopying.
- g) *Inspection.* A retrospective evaluation of the adequacy of the firm's quality control policies and procedures, its personnel's understanding of those policies and procedures and the extent of the firm's compliance with them. Inspection is an element of monitoring.
- h) *Monitoring.* A process comprising an ongoing consideration and evaluation of the firm's system of quality control, the objective of which is to enable the firm to obtain reasonable assurance that its system of quality control is designed appropriately and operating effectively.
- i) *Partner.* An individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership.
- j) *Personnel.* All individuals who perform professional services for which the firm is responsible, whether or not they are CPAs.

- k) *Professional standards.* Standards established by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under Rules 201 or 202 of the AICPA Code of Professional Conduct or other standard setting bodies that set auditing and attest standards applicable to the engagement being performed.
- l) *Qualified external person.* An individual outside the firm with the capabilities and competence to act as an engagement partner.
- m) *Reasonable assurance.* In the context of this standard, a high, but not absolute, level of assurance.
- n) *Relevant ethical requirements.* Ethical requirements to which the firm and its personnel are subject, which consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies, which may be more restrictive.
- o) *Staff.* Personnel, other than partners and engagement partners, including any specialists who are employees of the firm.

### **C. Documentation and Communication of Policies and Procedures**

Prior to January 2009 the firm's quality control policies and procedures were communicated to staff verbally. In January 2009 the firm developed and began the implementation of a written documentation of quality control system. This document was been updated in May 2010 and May 2011, and the up-to-date version is made available on the firm's staff portal.

The quality control policies and procedures are communicated, discussed and emphasized regularly at the firm staff meetings which are normally held once a week. Every staff member is required to be familiar with and to comply with the policies and procedures relevant to his/her practice areas, and staff members may be quizzed during staff meetings.

Adherence to the policies and procedures of quality control is an important aspect of staff performance evaluation and each staff member is held accountable in following the established policies and procedures.

Quality and professionalism of our service is a core value of our firm that calls for the efforts from each and everyone of us. Managing partners of our firm are directly responsible for the design, implementation and maintenance of the quality control system. Firm staff are encouraged to communicate their views or concerns on quality control matters directly with the managing partners.

The firm reviews and updates the policies and procedures at least once a year, based on feedback on firm's system of quality control from both internal staff and external regulatory bodies or consultants.

## System of Quality Control

Our firm's system of quality control policies and procedures are organized into the following areas:

- A. Leadership responsibilities for quality within the firm
- B. Relevant ethical requirements
- C. Acceptance and continuance of client relationships and specific engagements
- D. Human resources
- E. Engagement performance
- F. Monitoring

### A. Leadership Responsibilities for Quality Control Within the Firm

The CPA partner(s) as leadership of the firm shall assume the ultimate responsibility for the firm's system of quality control; non-partner CPAs or non-CPA staff may be designated as leadership of, and be delegated quality control responsibilities on, such engagements as routine accounting services. The leadership shall

- Perform work that complies with professional standards and regulatory and legal requirements;
- Issue reports that are appropriate in the circumstances;
- Review professional staff work performance and emphasis on following rules and controls established by the firm;
- Seek mentorship outside of the firm with experienced CPAs to ensure the firm is in good standing;
- Create a culture where staff take pride in providing quality work at firm;
- Communicate to and regularly remind firm staff that quality of service is a core value of the firm and the firm's business strategies are subject to the overarching requirement for the firm to achieve the objectives of the quality control system in all the engagements that the firm performs;
- Make decisions that foremost guarantee the quality of the service performed even if doing so would negatively impact the firm's profitability;
- Develop criteria for performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel that demonstrate the firm's overarching commitment to the objectives of the system of quality control;
- Designate personnel and charge such personnel with the tasks of developing, communicating, and maintaining the firm's quality control policies and procedures; and
- Hire outside consultants, who have sufficient and appropriate experience and ability to identify and understand quality control issues, to help develop firm policies and procedures as well as the necessary authority to implement those policies and procedures, and to work with firm partners on quality control system.

## B. Relevant Ethical Requirements

All firm staff are required to adhere to the fundamental principles of professional ethics established in the AICPA Code of Professional Conduct, which include:

- Responsibilities
- The public interest
- Integrity
- Objectivity and independence
- Due care
- Scope and nature of services

To ensure easy access to relevant guidelines and reference materials, the firm subscribes to checkpoint online library that include:

- GAAP
- AICPA
- Government Auditing Standards
- Audit and Attest
- FASB Codification
- Internal Revenue Code
- PCAOB
- Federal Tax Compliance Library

The firm also has maintained, since 2009, a 3-user license for the PPC online resources.

The firm holds weekly staff meetings, and this has been the tradition ever since the inception of the firm. During these staff meetings, new regulations, ethic training and practice client related issues are discussed. The meetings are always attended by at least one of the following two staff members directly engaging in audit services:

- Ying Sa
- Song Mo

Our firm has not had a situation where an audit and attest service cannot be performed due to the independence concern. Regardless, the firm actively identifies and evaluates circumstances and relationships that create threats to independence (e.g., a prominent issue our audit staff meet to discuss at the initial stage of every engagement is independence), and takes appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. In the event that effective safeguards cannot be applied, the firm may choose to withdraw from the engagement.

Our firm policies and procedures described below are designed to provide reasonable assurance that the firm management is timely notified of breaches of independence requirements so that the firm may take appropriate actions to resolve such situations.

- For every engagement, the firm shall communicate its independence requirements to the personnel and, where applicable, others (such as a contractor or consultant retained by the firm on a particular engagement) subject to them.
- The engagement partner will consider relevant information about client engagements, including the scope of services, to enable him or her to evaluate the overall effect, if any, on independence requirements.
- Staff members involved in an engagement is required to promptly notify the engagement partner and the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken. With the accumulation and communication of relevant information to appropriate personnel,
  - The firm, the engagement partner, and other firm personnel can readily determine whether they satisfy independence requirements;
  - The firm can maintain and update information relating to independence; and
  - The firm and the engagement partner can take appropriate action regarding identified threats to independence.
- Firm staff is required to promptly notify the firm of independence breaches of which they become aware. The firm in turn shall promptly communicate identified breaches of these policies and procedures and the required corrective actions to:
  - The engagement partner who, with the firm, has the responsibility to address the breach;
  - Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action.
- Once the required corrective actions have been taken, the personnel in charge shall communicate such a fact to the firm.
- On an annual basis, the firm requires written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by the requirements set forth in Rule 101 and its related interpretations and rulings of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. Such a step demonstrate the importance that the firm attaches to independence and keep the issue current for and visible to its personnel.
- When applicable, CPA partners shall rotate their role as lead audit personnel after a specified audit period to maintain independence.

### **C. Acceptance and Continuance of Client Relationships and Specific Engagements**

Our firm's policies and procedures require partners to consider the following factors before accepting engagement:

- The integrity of the client, including the identity and business reputation of the client's principal owners, key management, related parties, and those charged with its governance, and the risks associated with providing professional services in the particular circumstances;
- The firm's competence to perform the particular engagement and the availability of resources to complete the tasks timely; and
- Compliance with legal and ethical requirements.

Firm staff shall follow the following firm procedures in accepting and continuing client relationships and specific engagements:

- We obtain a written documentation from the client regarding the nature, scope, and limitations of the services to be performed. We clarify with the client any ambiguities regarding the requested services. These will minimize the risk of misunderstandings.
- When the particulars of the services have been identified, and we have decided to establish or continue the client relationship on a specific engagement, a written documentation on the services to be performed and any clarifications will be put in the client's file.
- We will consider client integrity by documenting the following item in working paper:
  - The nature of the client's operations, including its business practices and how it handles the financial matters and accounting records.
  - Information concerning the attitude of the client's principal owners, key management personnel, and those charged with its governance toward such matters as aggressive interpretation of accounting standards and internal control over financial reporting.
- We will document the following items in the working paper:
  - Firm personnel having knowledge of relevant industries or subject matters or the ability to effectively gain the necessary knowledge;
  - Firm personnel having experience with relevant regulatory or reporting requirements, or the ability to effectively gain the necessary competencies;
  - The firm has sufficient personnel with the necessary capabilities and competence;
  - Availability of outside specialists or consultants, if needed;
  - Firm personnel meeting the criteria and eligibility requirements to perform an engagement quality control review are available, where applicable; and
  - The firm is able to complete the engagement within the reporting deadline.
- If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, we will determine in writing whether it is appropriate to accept the engagement by taking into consideration any ethical requirements that exist under AICPA Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, Integrity and Objectivity (ET Section 102), such as disclosure of the relationship to the client and other appropriate parties.
  - If deciding whether to continue a client relationship includes consideration of significant issues that have arisen during the current or previous engagements, and their implications for continuing the relationship, such issues shall be documented in writing and communicated with client in writing.
  - If the information we obtained from client leads us to decline an engagement, if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of the professional and legal responsibilities that apply to the circumstances, and the possibility of withdrawing from the engagement or from both the engagement and the client relationship, such information shall be documented in writing.



- If we decide to withdraw from an engagement or from both the engagement and the client relationship, we will include documentations of significant issues, consultations, conclusions, and the basis for the conclusions.
  - Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the firm might take based on the relevant facts and circumstances.
  - Considering whether there is a professional, regulatory, or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
  - If determined that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship.
- If a CPA Partner is appointed by statutory procedures or required by law or regulation to perform the engagement, certain of the considerations regarding the acceptance and continuance of client relationships and specific engagements, as set out in this booklet may not be relevant.

#### **D. Human Resources**

##### *a) Recruitment and Hiring*

The managing partners shall periodically assess the firm's staffing needs based on the firm's future outlook and staff work loads and firm's financials.

Recruitments is done directly without going through third party professional staffing firms. The managing partners make the final hiring decision, taking into consideration the following factors:

- Professional education - a Bachelor's degree in accounting or finance or a related field is normally the minimum education requirement, and this requirement may be met through a combination of college level education and accounting/audit work experience;
- Possession of, or the potential to develop, the capabilities and competence necessary to perform the firm's work;
- Professional integrity verified by the candidate's references and other legitimate third party sources;
- Communication skills and willingness to be a team player;
- Demonstration of maturity to deal with clients and work under the pressure of deadlines and clients' demands;
- Firm staff's feedback on interviews with the candidate. Occasionally firm staff is asked to interview candidate. Ying Sa takes the input from firm staff's interview.
- Proficiency in a foreign language (non-English) is generally required. At the firm, collectively our staff speaks 9 different languages to better serve the firm's niche clientele of diverse cultural backgrounds. Our firm is formed around the idea of we are able to serve people in their native language.

b) *Determining Capabilities and Competencies*

Capabilities and competencies are the knowledge, skills, and abilities that qualify personnel to perform an engagement covered by this booklet. Capabilities and competencies are not measured by periods of time because such a quantitative measurement may not accurately reflect the kinds of experiences gained by personnel in any given time period. Accordingly, a measure of overall competency is qualitative rather than quantitative.

Generally speaking, the firm base its determination of firm staff's capabilities and competence on:

- Professional education
- Continuing professional development, including training
- Relevant work experience
- Capabilities and competence demonstrated during work at the firm on previously assigned engagements.

c) *Competencies of Engagement Partner*

All of our engagement partners are required to have at least a Bachelor's degree in a field related to accounting and thus are presumed to have the competence for standard accounting engagements.

As for an audit or attestation engagement, the firm procedure requires documentation of the engagement partner's competencies for the particular type of the engagement which shall include, at the minimum, the CPA designation. The extent of such documentation shall be commensurate with the complexity of the engagement service, e.g., a compilation or review engagement shall require very little documentation whereas a single audit may require extensive documentations.

Our firm adopts the following procedures to document the competence of the engagement partner:

- For tax and standard accounting services, no documentation is necessary.
- For review and compilation engagements, evidence of the partner meeting regulatory requirements such as the completion of relevant CPE credits will be documented.
- may be able to obtain the necessary competencies to perform an audit by becoming familiar with the industry in which the client operates, obtaining CPE relating to auditing, using consulting sources during the course of performing the audit engagement, or any combination of these.
- obtaining specialized knowledge through teaching or authorship of research projects or similar papers and
- performing a rigorous self-study program, or by engaging a consultant to assist on such engagements.
- Understanding of the role of a system of quality control and the Code of Professional Conduct – by familiar the engagement partner with the role of our firm's system of quality control and the AICPA's Code of Professional Conduct, both of which play critical roles in assuring the integrity of the various kinds of reports.
  - *Understanding of the service to be performed – by practice and consult with consultant to assist on such engagement.*
  - *Technical proficiency – by practice and consult with subject expert.*
  - *Familiarity with the industry – An understanding of the industry in which a client operates, to the extent required by professional standards applicable to the kind of service being performed. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry-specific estimates.*

- *Professional judgment* -- Skills that indicate sound professional judgment. In performing engagement, such skills would typically include the ability to exercise professional skepticism and identify areas requiring special consideration including, for example, the evaluation of the reasonableness of estimates and representations made by management and the determination of the kind of report appropriate in the circumstances.
- *Understanding the organization's information technology systems* -- A sufficient understanding of how client is dependent on or enabled by information technologies and the manner in which the information systems are used to record and maintain financial information, to determine when involvement of an IT professional is necessary for an audit engagement.

d) *Assignment of Engagement Teams*

An engagement team must be documented in writing. Right now we are a very small audit firm and only two staff members as an engagement team – Ying Sa and Song Mo, so that the documentation of the engagement team is simple. As our practice grows, there will be the need to assign responsibilities to each engagement.

The document will also assign responsibility for each engagement to an engagement partner:

- The identity and role of the engagement partner;
- The engagement partner has the appropriate capabilities, competence, authority, and time to perform the role; and
- The responsibilities of the engagement partner are clearly defined and communicated.
- Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and regulatory and legal requirements.
- Technical knowledge and expertise, including knowledge of relevant information technology.
- Knowledge of relevant industries in which the client operates.
- Ability to apply professional judgment.
- Understanding of the firm's quality control policies and procedures.

TE report is submitted daily to monitor the workload and availability of engagement partners so as to enable these individuals to have sufficient time to adequately discharge their responsibilities.

Estimated time for each audit is identified in the audit plan. The time estimate should allow:

- Perform engagements in accordance with professional standards and regulatory and legal requirements; and
- Enable the firm or engagement partners to issue reports that are appropriate in the circumstances
- When necessary our firm will hire outside consultant to ensure quality of the engagement.

e) *Professional Development*

Our firm mandatorily sets aside annually \$15K to 20K resources in hiring external source that is qualified for that purpose if internal technical and training resources are unavailable, or for any other reason.

f) *Performance Evaluation, Compensation, and Advancement*

The current size and status of our firm does not require us to develop and implement a complex procedure to tie the system of quality control with performance evaluation, compensation and advancement, other than that adherence to the quality control procedures is an important aspect of staff performance evaluation and advancement criteria, and that staff members' work ethics and integrity are being monitored closely by firm management.

## **E. Engagement Performance**

The objective of the engagement performance is to provide the firm with reasonable assurance that engagements are consistently performed in accordance with applicable professional standards and regulatory and legal requirements and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Policies and procedures for engagement performance should address all phases of the design and execution of the engagement, including engagement performance, supervision responsibilities and review responsibilities. Policies and procedures also should require that consultation takes place when appropriate. The firm satisfies these objectives by establishing and maintaining the followings:

- a) *Planning for engagements meets professional, regulatory, and the firm's requirement.*  
Planning considerations may vary depending on the size and complexity of the engagement. Planning generally includes the following activities:
- Assign responsibilities to appropriate personnel during the planning phase
  - Develop or update background information on the client and the engagement
  - Develop a planning document that consider the risks including fraud risk that affects the client and the engagement.
  - Integrate the use of PPC accounting and auditing manuals and practice aids to assist the firm in achieving compliance with professional standards.
- b) *The engagement is performed, supervised, documented and reported (or communicated) in accordance with the requirements of professional standards, applicable regulators and the firm.*
- Provide adequate supervision during the course of an engagement, including briefing the engagement team on the objectives of their work. The training, ability, and experience of the personnel are considered when assigning supervisors to the engagement.
  - Every reporting service engagement document must include documentation as to who performed the work on the document and the date such work was completed. Accordingly, the preparer should initial and date every document when the work on the document is completed.
  - Address significant issues arising during the engagement, considering their significance and appropriately modifying the planned approach.
  - Require engagement documentation in accordance with professional standards, applicable regulatory requirements, and the firm's policies.
- c) *Review of Engagement Work.*

The firm established the following guidelines regarding review of the documentation of the work performed and conclusions reached, the financial statements and reports and documentation of the review process:

- The work performed by the preparer must be reviewed by a person other than the preparer. Accordingly, the reviewer should initial and date every document that he or she reviewed. However, if review issues exist, all review issues must be resolved before the document is initiated and dated by the reviewer.
  - Engagement documentation is reviewed to determine whether the following have occurred:
  - The work has been performed in accordance with professional standards and regulatory and legal requirements
  - Significant findings and issues have been raised for further consideration.
  - The nature, timing, and extent of work performed are appropriate and do not need revision.
  - The work performed supports the conclusions reached and is appropriately documented.
  - The evidence obtained is sufficient and appropriate to support the report
  - The objective of the engagement procedures have been achieved.
- d) *Engagement teams complete the assembly of final engagement files on a timely basis and retains engagement documentation for a period of time sufficient to meet the needs of the firm, professional standards, laws and regulations.*

The firm complete the assembly of final engagement files and retain engagement documentation in accordance with professional standards, state board of accountancy and applicable regulatory requirements, if any.

- e) *Confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.*

The firm utilizes Creative Solutions Accounting (Engagement CS) for all audit services. Engagement teams are required to setup an user password to prevent unauthorized user to make unauthorized changes to the engagement documentation. All documents are saved in the firm Virtual office and can be access or retrieve at any time. Engagement teams are required to sign off documents after prepared and reviewed.

Firm hired document management company to handle paper shedding. No papers can go out the office with client information on it.

Firm has camera system to save every day staff and client activities in file for up to a year.

Firm log in system can identity who and when logged in and what was performed.

- f) *Consultation*

It is the firm's policy that all professional personnel should seek consultation whenever they are uncertain about:

- The answer to technical question
- Application of a professional procedure or standard
- Application, for the first time, of new or complex technical pronouncements
- Industries with special accounting, auditing or reporting requirements
- Emerging practice problems
- Filing requirements of regulators.

Upon determining that consultation of a particular subject matter is necessary, one should first try to obtain from the firm's up-to-date library an understanding of the positions by various authoritative sources.

When unusual or complex situation or problems cannot be resolved within the Firm, the engagement partner normally will consult with an specialist outside the firm who has the experience or expertise with respect to the matter. The extent of the documentation required for consultation is at the discretion of the engagement partner. All consultations that are unusual, controversial or complex and material in nature should be documented. If deemed necessary, the documentation should take the form of a memorandum. This memorandum should disclose the particular problem, the sources or consultants used, and the conclusion reached.

List of individuals designated as consultants:

- Duane Reyhl – system review and engagement consultation
- Jim Kennedy - Peer reviewer
- Kim Baer, attorney – HR related firm matters
- Eric Parrish, attorney – tax court related matters
- Don Nguyen - attorney – general business matters for clients

g) *Differences of Opinion*

Differences of opinion and professional judgment among members of the engagement team should be resolved by the engagement partner and that the report not be released until the matter is resolved. Any party to the discussion who disagrees with the conclusions is encouraged to prepare a memorandum outlining their position and filing it with the working papers.

h) *Engagement Quality Control Review (EQCR)*

It is the firm policy to evaluate all engagements against criteria established by the firm to determine whether an engagement quality control review should be performed and to perform an engagement quality control review for all engagements that meet those criteria.

The firm establishes the following criteria for performance of an engagement quality control review:

- The identification of unusual circumstances or risks in an engagement or class of engagement as determined by the engagement partner.
- A engagement quality control review is required by law or regulation.
- The first time AA service to this type of industry of these type of engagement. For example, the first time signal audit would need to go to be reviewed.

The firm addresses the appointment of engagement quality control reviewers and the technical qualifications required to perform the role, including the necessary experience and authority. In selecting appropriate engagement quality control reviewers, the following criteria are followed—

- The engagement quality control reviewer is selected by the managing partner.
- The engagement quality control reviewer has sufficient and appropriate experience, technical expertise, and authority for the particular engagement to be reviewed.
- Engagement quality control reviewers maintain appropriate ethical requirements, such as objectivity, due professional care, and independence. The engagement quality control reviewer satisfies the independence requirements relating to the engagement reviewed.

- The engagement quality control reviewer does not participate in the performance of the engagement except in a consulting role, for example, the engagement partner may consult the engagement quality control reviewer during the engagement to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Both the engagement quality control reviewer and the engagement team are careful to maintain the reviewer's objectivity.
- When the firm does not have qualified personnel to perform the engagement quality control review, the firm contracts with qualified external individuals or other firms to perform the review.

Engagement quality control reviews are completed before the report is released. The firm ensures compliance with this procedure by making sure the EQCR will be performed following these steps:

- Discuss significant accounting, auditing, and financial reporting issues with the engagement partner, including matters for which there has been consultation.
- Discuss with the engagement partner the engagement team's identification and audit of high-risk assertions, transactions and account balances.
- Confirm with the engagement partner that there are no significant unresolved issues.
- Review selected working papers relating to the significant judgments the engagement team made and the conclusions they reached.
- Read the financial statement or other subject matter information and the report and considering whether the report is appropriate
- Review the summary of uncorrected misstatements related to know and likely misstatements.
- The EQCR may be conducted at various stages throughout the engagement to ensure that significant issues may be resolved to the reviewer's satisfaction before the report is released.
- The extent of the EQCR may depend upon, among other things, the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.

If differences of opinion occur between the engagement partner and the engagement quality control reviewer, appropriate differences of opinion procedures are followed (see the Consultation and Differences of Opinion section of this QC document), and documentation of the resolution of the conflicting opinions is finalized before the release of the report.

In the future, the firm will require to document step by step of the EQCR. We will prepare appropriate documentation of the engagement quality control review, including documentation that reflects —

- The engagement quality control review procedures required by firm policies have been performed.
- The engagement quality control review was completed before the report was released.
- The reviewer was not aware of any unresolved matters that would have caused him or her to believe that significant judgments made and conclusions reached were not appropriate.
- At present since our audit staff is fairly small and our EQCR documentation is not in full scale and we remain actively involved with our consultant, even though we desire to document the EQCR but it is not currently required by the management.

## F. Monitoring

It is the Firm policy that the quality control system be monitored on an ongoing basis to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the elements of quality control are relevant, adequate, operating effectively, and being effectively applied.

As an integral part of the monitoring process, inspection/review procedures are performed on all elements of the firm's quality control system at least annually to determine whether the firm has complied with applicable professional standards and its stated quality control policies and procedures.

The firm ensures compliance with this policy by implementing the following procedures:

- a) At least annually, the firm partner performs inspection/review procedures on the firm's quality control system. The monitoring process is planned, performed, and documented using the appropriate monitoring checklist found in the practice aid section of PPC's guide to quality control as a work program. The inspection is due at the end of June for prior calendar year.
- b) The firm partner's responsibilities:
  - Reviewing compliance with the firm's policies and procedures related to relevant ethical responsibilities, including independence, human resources, acceptance and continuance of client relationship and specific engagements, and engagement performance.
  - Reviewing all policies and procedures and revising those affected by changes in professional standards or the nature of her practice
  - Reviewing and determining that the firm's practice aids are current and reflect recent professional pronouncements and changes in her practice
  - Reviewing CPE records to determine compliance with the requirements of the AICPA and other applicable regulatory agencies.
- c) At the conclusion of the inspection/review, the firm partner is responsible for identifying and summarizing the deficiencies noted for each engagement reviewed and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagement. Once identified, deficiencies are summarized and evaluated to determine whether:
  - Appropriate competencies are being achieved for accounting, auditing, and attestation engagements.
  - Existing quality control policies and procedures should be modified.
  - Additional emphasis should be on specific industries or areas for future engagement.
- d) The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection
  - Revise the firm's quality control policies and procedures
  - Discipline individuals who fail to follow the firm's QC policies and procedures
- e) At least annually, the firm partner will verbally communicate to all professional personnel:
  - The monitoring procedures performed
  - The conclusions reached from such procedures
  - Any systemic, repetitive or other significant deficiencies noted and the corrective actions to be taken to resolve them



- f) The firm partner is responsible for monitoring the implementation of, and compliance with, any corrective action.
- g) The firm partner periodically reminds personnel during staff meetings that any concerns regarding complaints or allegations may be communicated to the firm without fear or reprisals. The firm appropriately addresses complaint and allegation by:
  - Investigating the following:
    - i. Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements
    - ii. Allegations of noncompliance with the firm's system of quality control
    - iii. Deficiencies in the design or operation of the firm's quality control policies and procedures, or noncompliance with the firm's system of quality control by an individual or individuals, as identified during the investigations into complains and allegations
  - Documenting all complaints and allegations and the responses to them.
- h) The firm prepare appropriate documentation to provide evidence of the operation of each element of the firm's system of quality control by preparing a memorandum or documentation of the following:
  - Monitoring procedures performed, including how engagements were selected for review.
  - Evaluation of the firm's adherence to professional standards and regulatory and legal requirements
  - Evaluation of whether the quality control system is appropriately designed and effectively implemented.
  - Evaluation of whether quality control policies and procedures are operating effectively so the reports issued are appropriate in the circumstances
  - Identification of deficiencies noted, an evaluation of their effects, and the basis for determining what further actions are necessary and what the action should be
- i) The firm retains monitoring documentation for a time sufficient to allow those monitoring the QC system, including peer reviewers to evaluate the firm's compliance with its system. The firm generally retains such documentation until the next peer review report has been completed.
- j) A peer review conducted under the standards established by the AICPA substitute for the firm's inspection of engagement working papers, reports, and clients' financial statements for some or all engagements for the period covered by the peer review