

**VT Williams & Associates, LLP**  
Formerly known as: Freeman & Williams, LLP  
**Quality Control Document**  
**Effective December 1, 2014**

The firm's quality control policies and procedures for the six elements of quality control are presented below. All employees of the firm are provided copies and are responsible for understanding, implementing, and adhering to these policies and procedures.

The firm is a member of the AICPA Governmental Audit Quality Center and the AICPA Employee Benefit Plan Audit Quality Center and has agreed to establish policies and procedures specific to the firm's governmental audit practice (as defined in the membership requirements) and its ERISA employee benefit plan practice to comply with the applicable professional standards and the membership requirements of the respective Centers. These policies and procedures are documented and communicated by this document.

As required by the membership requirements of the respective Centers, it is the policy of the firm that all eligible audit partners be members of the AICPA. It is the responsibility of the managing partner to annually advise each audit partner that AICPA membership is mandatory. Also, as required by the membership requirements of the respective Centers, the audit partner assumes firm-wide responsibility for the quality of the firm's governmental audit practice and to assume firm-wide responsibility for the quality of the firm's ERISA employee benefit plan practice.

Any questions, concerns, or recommendations about the firm's quality control system should be communicated to the managing partner or the audit partner.

## **I. LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM**

It is the firm's policy to promote a culture of quality that is pervasive throughout the firm's operations through the development of its system of quality control. Firm management, under the direction of the managing partner and audit partner, assumes responsibility for the firm's system of quality control and designs the system to (a) emphasize the importance of performing work that complies with professional standards and regulatory and legal requirements and (b) issue reports that are appropriate in the circumstances. In maintaining a culture of quality, the firm emphasizes the importance of ethics and integrity in every decision that personnel make, particularly at the engagement level. The firm ensures compliance with this policy by implementing the following procedures:

1. The firm dedicates sufficient and suitable resources to its quality control system and quality initiative and assigns the operational responsibility for the firm's quality control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary QC policies and procedures. The firm appropriately communicates clear, consistent, and frequent actions and messages that emphasize the firm's quality control policies and procedures. Such actions and messages include-
  - Providing a copy of the firm's system of quality control document to all new professional employees and reviewing the document and its importance with them.
  - Reviewing the firm's quality control policies and procedures, especially in areas where questions or problems have arisen, with personnel during firm training sessions.

2. The managing partner and audit partner evaluate client relationships and engagements to ensure that commercial considerations are not placed ahead of the firm's commitment to quality control. Additionally, the firm's compensation and advancement policy and procedures (covered in the human resources QC document) do not place commercial considerations ahead of the quality of work performed.
3. The managing partner and audit partner and other partners in the firm demonstrate the importance of quality by their actions. Such actions include-
  - Making decisions with a focus on the public interest and emphasizing that personnel do the same.
  - Demonstrating the importance of creating and maintaining a good public reputation.
  - Ensuring partners and staff have sufficient time and resources to solve engagement challenges.
  - Following the intent, as well as the stipulated guidance, of professional standards and applicable regulatory and legal requirements.
  - Displaying enthusiasm and sincerity in communicating its commitment to a quality initiative.
  - Demonstrating consistency.
4. The firm establishes a formal code of conduct that reflects the firm's core value of quality and guides personnel to make appropriate decisions throughout their workday. The code of conduct is regularly communicated and reiterated to all employees and is posted in various common areas throughout the office.
5. The firm establishes and maintains a positive work environment by combining the firm's quality objectives with the personnel's needs to be valued and appreciated.
6. The firm hires, compensates, and promotes individuals who possess and exhibit high levels of integrity, as covered in the human resources QC policies and procedures.
7. The firm provides ethics training for all professional personnel at least every three years, as covered in the relevant ethical requirements QC policy and procedures.
8. The firm rewards personnel who demonstrate a commitment to quality through its performance evaluation, compensation, and advancement system, as covered in the human resources QC policies and procedures.
9. The firm does not allow unethical behavior to occur unchallenged and addresses instances of noncompliance with the firm's quality control system through swift disciplinary action or, in extreme cases, termination of the offending employee.
10. At least annually, the firm's leadership responsibilities for quality within the firm policy and procedures are reviewed to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

## II. RELEVANT ETHICAL REQUIREMENTS

It is the firm's policy that all professional personnel be familiar with and adhere to relevant ethical requirements of the AICPA, contained in the Code of Professional Conduct, the States of Nevada and California Boards of Accountancy, and the States of Nevada and California CPA Societies in discharging their professional responsibilities. Furthermore, it is the policy of our firm that, for engagements subject to Government Auditing Standards and other applicable regulatory agencies, all professional personnel be familiar with and adhere to the relevant ethical requirements included in those standards and that personnel will always act in the public interest. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats, but such situations are not specifically addressed by the independence rules of the AICPA Code of Professional Conduct, the situation will be evaluated by referring to the Conceptual Framework for AICPA Independence Standards and applying professional judgment to determine whether an independence breach exists. The firm will take appropriate action to eliminate threats or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach. The firm ensures compliance with this policy by implementing the following procedures:

1. All personnel have ready access to the ethical requirements to which the firm is subject. Those requirements include the AICPA Code of Professional Conduct, the States of Nevada and California Board of Accountancy, and the States of Nevada and California CPA Societies ethical requirements. The firm maintains a current copy of those ethical requirements in the firm's library, and personnel also have online access to the information. The firm expects its personnel to be familiar with those relevant ethical requirements.
2. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. Such signed representation letters are also required from part-time, seasonal, and contract professionals and any other individuals who work on accounting and auditing engagements and are required to be independent. Ethics training is provided for professional personnel at least every three years. Such training covers the firm's relevant ethical requirements policy and procedures and the independence and ethical requirements of all applicable regulators.
3. All professional personnel review the firm's current client list in conjunction with completing the representation letter for identification of threats to, or breaches of, independence. The current client list is maintained by the firm's administrator and changes to the list are communicated on a timely basis by e-mail from the firm's administrator. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility.
4. The work programs and standard forms in the accounting and auditing manuals used by the firm include steps that require:
  - a. A determination of complying with relevant ethical requirements on each new and recurring client.
  - b. A consideration of unpaid fees.
  - c. A consideration of any familiarity threat related to senior personnel recurring on an audit or attest engagement for five years or more.

- d. An annual confirmation of the independence of another accountant performing work on a segment of an audit, review, or attestation (including forecast and projection) engagement.
  - e. Appropriate reporting on compilations in which the firm is not independent.
  - f. A consideration of whether actual or threatened litigation has an effect on the firm's independence with respect to the client.
  - g. A determination of whether all professional personnel are independent of the financial reporting entity, if the firm is engaged as the principal auditor to report on the basic financial statements of the financial reporting entity.
  - h. A consideration of whether the firm was party to a cooperative arrangement with a client that was material to the firm or the client.
5. All professional personnel are required to promptly notify the engagement partner and managing partner or audit partner of any circumstances or relationships that may create a potential threat to independence or an independence breach, so that appropriate action can be taken. To acknowledge that responsibility, professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list known circumstances and relationships that may create a potential threat to independence or violate the firm's relevant ethical requirements policy, as stipulated in Procedure 2 above.
6. If a potential threat to independence is identified, the audit partner accumulates and communicates relevant information to appropriate personnel so (a) the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) the firm can maintain current independence information. If the firm is not independent, it will only provide compilation services for those clients and the firm will disclose the lack of independence in its accountant's compilation reports for those clients.
7. The engagement partner has the primary responsibility to identify all nonattest services, including financial statement preparation, cash-to-accrual conversions, and reconciliations, performed for an attest service client and for determining if such nonattest services impair independence with respect to that client. The engagement partner will consider the cumulative effect of multiple nonattest services and whether the aggregate effect of performing multiple nonattest services results in a threat to independence that cannot be reduced to an acceptable level. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the firm. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in Government Auditing Standards for ongoing, planned, and future audits. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure.
8. The managing partner and audit partner are responsible for monitoring the firm's independence of attest clients at which partners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.

9. All relevant ethical requirements matters (including questions from the representation letters and those from other sources) are resolved by the managing partner or audit partner. The managing partner and audit partner are responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, requiring additional training, drafting a reprimand letter, or even termination. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent workpaper files.
10. If a breach of independence is identified, the breach and the required corrective actions are promptly communicated to (a) the managing partner and audit partner, (b) the engagement partner, who (along with the firm) has the responsibility to address the breach, and (c) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the managing partner and audit partner when required corrective actions related to the breach and noncompliance with these policies and procedures has been taken.
11. At least annually, the audit partner reviews the firm's ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

### **III. ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS**

It is the firm's policy that, for all compilation, review, audit, and attestation engagements, the acceptability of the client and the engagement be evaluated before the firm agrees to provide professional services. The firm will accept only engagements where it has considered the integrity of the client, and believes the engagement can be completed with professional competence after considering the risks associated with providing professional services in the particular circumstances. The firm ensures compliance with this policy by implementing the following procedures:

1. For each prospective client that requests for the first time a compilation, review, audit, or attestation service, the partner making initial contact with the client is required to complete an engagement acceptance form.
2. For existing clients, the managing partner or audit partner annually reviews the firm's client list and reevaluates the acceptability of each client and engagement. Generally, reasons that might surface in either the firm-wide or individual engagement review that would cause the firm to consider discontinuing services include significant changes in the client and its operations or the existence of conditions that would have caused the firm to reject the client or engagement had such conditions existed at the time of the initial acceptance. Furthermore, the engagement work programs used by the firm (as documented in the engagement performance QC element of the firm's QC document) contain steps requiring the engagement team to consider whether the firm should discontinue providing all or certain services to a client.
3. The managing partner, audit partner or the engagement partner documents how issues identified during the acceptance and continuance process were overcome and resolved so that the firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusions, and the basis for the conclusions.

4. The managing partner and audit partner are notified of any instances in which the firm should discontinue providing all or certain services to a client or should withdraw from a current engagement. The managing partner or audit partner is responsible for all communications with clients regarding the discontinuance of services. Furthermore, the managing partner and audit partner will consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by the audit partner of the name of any client to which services are discontinued. Significant issues, consultations, conclusions, and the basis for the conclusions will be documented when withdrawal from an engagement or from both the engagement and the client relationship occurs.
5. The engagement partner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter documents the firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed, as well as the identification of the engagement partner and his or her role.
6. If the firm discovers a potential conflict of interest during the acceptance and continuance decision, the audit partner determines whether it is appropriate to accept the engagement. If the engagement is accepted, the ethical requirements under AICPA Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, *Integrity and Objectivity*, are considered.
7. At least annually, the audit partner reviews the firm's acceptance and continuance of client relationships and specific engagements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

#### **IV. HUMAN RESOURCES**

##### **Overall**

The success of the firm is dependent upon its professional staff. It is the firm's intent to succeed in the marketplace by having partners and staff who possess the capabilities, competence, and commitment to ethical principles to assure that engagements performed by the firm are in accordance with professional standards and regulatory and legal requirements and that appropriate reports are issued. Having effective QC policies and procedures over the human resources element will help ensure the proficiency of its personnel. The activities of a comprehensive human resources QC system includes-

- Recruitment and hiring.
- Determining capabilities and competencies.
- Assignment of engagement teams.
- Professional development.
- Performance evaluation, compensation, and advancement.

Policies and procedures for each of these activities are detailed below. At least annually, the audit partner reviews the firm's human resources policies and procedures to determine if they are appropriate and operating effectively. See the MONITORING element of the firm's QC system for further information.

## **Recruitment and Hiring**

It is the firm's policy that recruitment and hiring decisions for the professional staff be based on an objective evaluation of the firm's personnel needs, that candidates possess the appropriate characteristics to perform competently, and that new employees are adequately informed of the firm's policies and procedures. The firm ensures compliance with this policy by implementing the following procedures:

1. A recruitment and hiring plan is prepared periodically (as necessary) and is approved by the managing partner or audit partner. The recruitment and hiring plan is communicated to those involved in the recruitment and hiring process.
2. Recruiting techniques and actual employment decisions are made by the managing partner or audit partner after considering the needs of the firm.
3. An Interview and Evaluation Checklist is prepared for each applicant.
4. New employees are informed of the firm's personnel policies and procedures on their first day of employment.

## **Determining Capabilities and Competencies**

It is the firm's policy to ascertain whether individual members of the professional staff possess requisite capabilities and competencies. In making this determination, the firm primarily considers qualitative measures, as opposed to quantitative ones. The firm ensures compliance with this policy by implementing the following procedures:

1. Periodically, the managing partner assesses the capabilities and competencies of engagement partners to help assure proper engagement performance. The following capabilities and competencies are assessed based on the characteristics of the particular client, industry, and service provided:
  - a. An understanding of the role of the firm's QC system and the *Code of Professional Conduct*.
  - b. An understanding of the performance, supervision, and reporting aspects of the service to be performed.
  - c. An understanding of the applicable accounting, auditing, and attestation professional standards, including those directly related to any special industries.
  - d. An understanding of applicable industries and each industry's organization and operating characteristics, sufficient to identify high or unusual risk areas and to evaluate the reasonableness of industry-specific estimates.
  - e. Proficiency and seasoned judgment in discharging assigned responsibilities.
  - f. An understanding of how an organization is dependent on or enabled by information technologies and how the information technology systems are used to record and maintain financial information.

- g. Personal attributes, leadership qualities, and perspective on business issues.
2. The firm determines how engagement partners and other personnel can best obtain additionally needed capabilities and competencies.
3. Performance evaluations are conducted, at least annually, to determine the capabilities and competencies possessed by professional staff other than partners.

### **Assignment of Engagement Teams**

It is the firm's policy that each engagement be supervised by an engagement partner with appropriate authority. Additionally, personnel assigned to engagements (including partners) possess the necessary capabilities, competence, and available time to (a) perform engagements that comply with professional standards and regulatory and legal requirements, and (b) enable the firm to issue reports that are appropriate in the circumstances. The firm ensures compliance with this policy by implementing the following procedures:

1. In addition to assessing the engagement partner's capabilities and competencies (see the Determining Capabilities and Competencies section), the audit partner clearly defines and communicates the responsibilities and authority of an engagement partner to that partner, and evaluates the partner's work load to ensure that he or she has the time to adequately perform the role.
2. The identity and role of the engagement partner are communicated to client management and those charged with governance through a written engagement letter.
3. Periodically, the audit partner assesses the staffing requirements of each client and engagement and develops a staff assignment plan. A copy of the staffing plan is circulated to all employees.
4. The firm recognizes that many modifications to the staff assignments plan will be required because of changes in client circumstances that affect the competencies appropriate for the client engagement, ongoing consideration of competencies possessed by firm partners and personnel assigned to particular engagements, addition or loss of clients, staff turnover, delays in the timing of work, or other unforeseen events. Modifications are made based on an informal meeting of the partners and managers affected by the changes and after a reconsideration of the planning factors discussed in Assignment of Engagement Teams, Procedures 1 – 3. Any disputes regarding assignment of personnel are resolved by the audit partner. Members of the staff are informed orally by the engagement partner of staffing changes and new assignments.

### **Professional Development**

It is the firm's policy that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the AICPA, the Nevada and California State Boards of Accountancy, the AICPA Governmental Audit Quality Center, the AICPA Employee Benefit Plan Audit Quality Center, the U.S. Government Accountability Office, and other regulatory agencies, if applicable; that all professional staff maintain an adequate awareness and understanding of current developments in professional standards; that all non-licensed professional staff work toward passing the CPA exam; and that all professional staff assist in the training and development of staff members under their supervision. The firm ensures compliance with this policy by implementing the following procedures:



1. Annually, CPE is provided to staff based on their level of experience and approved by the audit partner.
2. The audit partner monitors employee progress toward meeting their CPE.
3. All professional personnel are to obtain a minimum of 40 hours of CPE each year in programs that qualify for credit under the CPE rules that govern the firm.
4. Individuals who work on audits and attestation engagements subject to the *Government Auditing Standards*, including planning, directing, performing fieldwork, or reporting, should complete at least 24 hours of CPE every two years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book assignments and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book assignments are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits or attestation engagements. In other words, everyone working on a Yellow Book engagement has to meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement or who do not spend at least 20% of their time annually on Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement.
5. In accordance with the membership requirements of the AICPA Governmental Audit Quality Center's membership requirements, the partner assigned firm wide responsibility for the quality of the firm's governmental audit practice must meet both the 24-hour and 80-hour CPE requirements even if that partner would not otherwise be subject to those requirements. The partner must also participate in the annual Center sponsored webcast on recent developments in governmental auditing.
6. Individuals who sign audit opinions and/or manage ERISA employee benefit plan audit engagements and individuals who work on ERISA employee benefit plan audit engagements must meet the CPE requirements of the AICPA Employee Benefit Plan Audit Quality Center.
7. Appropriate CPE documentation is maintained for each professional for the most recent five years.
8. The firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities.
9. The firm recognizes the importance of on-the-job training and encourages personnel with supervisory responsibility to be aware of situations where it can be provided.
10. The firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in such activities.

### **Performance Evaluation, Compensation, and Advancement**

It is the firm's policy that performance evaluation, compensation, and advancement decisions for professional personnel be based on a timely and objective evaluation of individual performance, that the professional personnel selected for advancement have the necessary qualifications to fulfill their assigned responsibilities, and that compensation of personnel, including partners, be based on the quality of their work. The firm ensures compliance with this policy by implementing the following procedures:

1. The following personnel levels and related performance criteria are used by the firm:
  - a. **Staff Accountant** – Assume responsibility for unaudited financial statement engagements, segments of audits, or the completion of tax returns under the supervision of more experienced staff.
  - b. **Senior (In-charge)** – Assume responsibility for the supervision of unaudited financial statement engagements, audits, and tax return preparation engagements.
  - c. **Manager (Supervisor)** – Plan and supervise assigned engagements as well as assist in administrative functions of the office and the development of new practice opportunities.
  - d. **Partner** – Assume ultimate responsibility for all assigned engagements, perform assigned administrative duties, and participate in civic and community activities.
2. All professional staff is evaluated by their supervisors at least annually.
3. Annually, each partner completes a partner self-evaluation form and an evaluation form for all other partners. Partner compensation considers these evaluations.
4. At least annually, and on an *ad hoc* basis if necessary, the partners meet as a committee to discuss advancement, compensation, and termination decisions.

## V. ENGAGEMENT PERFORMANCE

### Overall

Engagement performance encompasses many aspects of performing an engagement, from the initial planning stages to the issuance of the report and assembly of the workpapers. Additionally, it is not uncommon for the firm's engagement teams to occasionally encounter complex or contentious issues that result in the need for consultation or that create differences of opinion. The firm believes in a strong quality control system and supports frequent engagement quality control review. While all of these activities are part of the engagement performance element of the QC system, the firm has chosen to differentiate certain activities within this section of the QC document for ease of understanding. The activities are segregated as follows:

- Engagement performance and documentation.
- Engagement quality control review.
- Consultation and differences of opinion.

Policies and procedures for each of those components of engagement performance are described below. At least annually, the audit partner reviews the firm's engagement performance policies and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

### Engagement Performance and Documentation

It is the firm's policy that all compilation, review, audit, and attestation (including forecast and

projection) engagements be properly planned, performed, supervised, reviewed, documented, and reported or communicated in accordance with the requirements of professional standards, regulatory and legal requirements, and the firm. In this regard, the firm's system of engagement performance quality control (QC) steps is documented in the firm's engagement performance bridging documents.

The firm adopts and integrates within its quality control system the use of PPC accounting and auditing manuals and practice aids, as more fully described in the engagement performance bridging documents attached as Exhibits 1-1, 1-2 & 1-3 to this document. This QC document, the PPC manuals, and any other practice aids used by the firm are intended solely to assist us in achieving compliance with professional standards. Accordingly, nothing within this QC document should be construed as (a) requiring a higher level of performance or documentation than the minimum specifically required by our firm's QC policies and procedures, or (b) overriding the exercise of professional judgment.

### **Engagement Quality Control Review**

It is the firm's 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 the criteria. Engagement quality control reviews are completed before the report is released. The firm ensures compliance with this procedure by implementing the following procedures:

1. The firm establishes criteria for performance of an engagement quality control review (EQCR). In establishing such criteria the firm considers-
  - The structure and nature of the firm's practice.
  - The nature of the engagement, including whether it involves a matter of public interest.
  - Whether unusual circumstances or risks have been identified relating to the engagement, engagement service type, or industry.
  - Whether laws or regulations require an engagement quality control review to be performed.
2. The firm establishes a different set of criteria for each major service provided (i.e., compilation, review, audit, and attestation engagements). All engagements are evaluated against the established criteria. An engagement quality control review is performed for all engagements that meet the established criteria. If no engagements meet the criteria established by the firm for EQCR, reviews may or may not be performed.
3. The firm may periodically make changes to the established criteria based on changes in the firm's practice.
4. Based on the current composition of the firm's accounting and auditing practice, the firm has concluded that engagement quality control review should be performed for all:
  - Refuse engagements with significant accounting issues or any others deemed necessary by the engagement partner
  - Governmental entity engagements with significant accounting issues or any others deemed necessary by the engagement partner

- Casino engagements with significant accounting issues or any others deemed necessary by the engagement partner

Engagements other than those are not required to have engagement quality control review performed.

5. Performing an engagement quality control review includes the following procedures-

- An objective evaluation of significant judgments made and the conclusions reached in formulating the report.
- Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
- Considering the evaluation of the firm's and the engagement team's independence in relation to the specific engagement.
- Reading the financial statements or other subject matter information and the report and considering whether the report is appropriate.
- A review of selected engagement documentation relating to the significant judgments and the conclusions reached.
- A discussion with the engagement partner about significant findings and issues.
- 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.

6. 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 conflicting opinions is finalized before the release of the report.

7. The firm prepares 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 the engagement team made and conclusions they reached were not appropriate.

8. 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 audit 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.
9. 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. The criteria in Procedure 8 are followed in selecting qualified external engagement quality control reviewers.

### **Consultation and Differences of Opinion**

It is the firm's policy that personnel refer to authoritative literature or other sources when appropriate. It is also the firm's policy that all professional personnel seek consultation, on a timely basis, within or outside the firm whenever differences of opinion occur or uncertainties exist regarding a complex, unusual, unfamiliar, difficult, or contentious technical issue; the application of firm policy; or other circumstances as considered necessary. The firm ensures compliance with this policy by implementing the following procedures:

1. The firm maintains or provides ready access to an adequate and up-to-date reference library that includes materials related to clients served and that should be consulted to assist professional staff in their research of technical issues.
2. While it is impossible to list all situations that might require referral to authoritative literature or other sources or that might require consultation, the following situations, due to their complexity, may require consultation:
  - a. Any engagement in which a qualified or nonstandard report is likely to be issued.
  - b. Any engagement involving material litigation.
  - c. Application, for the first time, of new or complex technical pronouncements.
  - d. Industries with special accounting, auditing, or reporting requirements.

- e. Accounting for complex or unusual transactions.
  - f. Emerging practice problems.
  - g. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made.
  - h. Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued.
  - i. Filing requirements of regulatory agencies.
  - j. Meetings with regulators at which the firm is to be called on to support the application of generally accepted accounting principles or generally accepted auditing standards that have been questioned.
3. Issues requiring consultation are first discussed by members of the engagement team. If further consultation is necessary, individuals within the firm having appropriate expertise are then consulted.
  4. Consultations with specialists outside of the firm, including non-accounting specialists, must be approved by the engagement partner.
  5. All known relevant facts are provided to those consulted so they can understand the nature and scope of the consultation.
  6. All consultations involving unusual, contentious, unfamiliar, or difficult issues should be sufficiently documented to facilitate understanding of the issue for which the consultation was needed, the results of the consultation, the decisions made and the basis for those decisions, and how those decisions were implemented.
  7. If a difference of opinion occurs within the engagement team, between the engagement partner and the engagement quality control reviewer, or with those consulted within or outside the firm, that difference is resolved using Procedures 3, 4, and 5, if possible. If not, the matter should be brought to the attention of the audit partner. The audit partner (with the assistance of other practitioners or regulatory entities if desired) will resolve the dispute regarding the proper course of action to be taken by the firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented is documented. The firm will not release the report until any differences of opinion are resolved. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion may document his or her disassociation from the resolution of the matter.

## **VI. MONITORING**

It is the firm's 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. Monitoring activities include engagement quality control review (EQCR), inspection, and post issuance review. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the firm's QC system. The policy and procedures relating to EQCR are

addressed in the ENGAGEMENT PERFORMANCE section of this QC document. The retrospective monitoring activities performed by the firm relate to inspection and post issuance review (collectively referred to as inspection/review) and are the primary activities addressed in these monitoring policy and procedures.

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:

1. At least annually, the audit partner selects an individual or team to perform 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 monitoring procedures include review of administrative records to assess compliance relating to QC elements other than engagement performance. The monitoring process will include a review of the governmental audit practice and each type of plan in the firm's ERISA employee benefit plan audit practice in accordance with the membership requirements of the respective audit quality centers.
2. At the conclusion of the inspection/review, the monitoring team (or individual) is responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed, and (b) discussing the results of the inspection/review with the engagement partners and other appropriate personnel responsible for each of the engagements selected for review and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagements. Once identified, deficiencies are summarized and evaluated to determine whether:
  - a. Appropriate competencies are being achieved for accounting, auditing, and attestation engagements.
  - b. Existing quality control policies and procedures should be modified.
  - c. Additional emphasis should be placed on specific industries or areas for future engagements.
3. The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection/review-
  - Take appropriate remedial action directed toward the individual engagement or person.
  - Revise the firm's quality control policies and procedures.
  - Discipline individuals who failed to follow the firm's QC policies and procedures.
  - Communicate the findings to those responsible for training and professional development.
4. At least annually, the firm prepares and distributes a formal monitoring report to engagement partners and the managing partner. This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such

procedures, and (c) any systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them.

5. In addition, the firm is subject every three years to a peer review in accordance with the requirements of the AICPA and the Nevada and California State Boards of Accountancy. The audit partner is responsible for scheduling and coordinating that review. The firm elects to have its peer review count as its inspection for each year in which a peer review is performed.
  - a. In accordance with the membership requirements of the AICPA Governmental Audit Quality Center and the AICPA Employee Benefit Plan Audit Quality Center, the engagement letter covering the firm's peer review will require that the governmental audits and ERISA employee benefit plan audits selected for review during the firm's peer review be reviewed by someone who is employed by a member firm of the respective Center. Also information relative to the firm's most recently accepted peer review is available to the public in accordance with the membership requirements of the respective Centers.
  - b. The internal inspection/review results (including those specific to the firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection/review) and annual monitoring communication are made available to the firm's peer review team.
6. Based on the results of the firm's annual inspection/review, the annual monitoring communication, and, if appropriate, the results of the firm's peer review, the audit partner determines any corrective actions that should be pursued to improve, amend, or revise the QC system.
7. The partners meet annually during the partners' retreat (or more frequently as needed on an interim basis) and discuss the monitoring process, the results of the inspection/review, and the corrective actions determined to be needed by the audit partner and consider the implications for the firm.
8. The audit partner is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
9. The audit partner periodically reminds personnel during staff meetings that any concerns regarding complaints or allegations may be communicated to the firm without fear of reprisals. The firm appropriately addresses complaints and allegations by-
  - Establishing channels of communication for complaints and allegations through the firm's website and communicating such information to employees and clients.
  - Investigating complaints and allegations and involving legal counsel if considered necessary. The firm assigns individuals to this process who are trained and knowledgeable about firm procedures and who are not otherwise involved in the engagement relating to the complaint or allegation.
  - Documenting all complaints and allegations.
10. The firm documents the performance of each element of its QC system on an ongoing basis, as well as in conjunction with documenting its monitoring of the system. Documentation includes-



- Evidence of the 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 QC system is appropriately designed and effectively implemented.
  - Evaluation of whether QC policies and procedures are operating effectively so that reports issued are appropriate in the circumstances.
  - Identification of deficiencies noted, an evaluation of their effect on the QC system, and the basis for determining what further actions are necessary, if any.
11. 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.

## Exhibit 1-1

### Illustration of an Engagement Performance Bridging Document (Audit Engagements)

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements
	Primary Responsibility	Secondary Responsibility	Audits
1. Evaluate whether to accept/continue the engagement considering the client's integrity and the firm's capabilities.	Partner (P)	Engagement Team (ET)	Yes
2. Communicate the partner's identity and role to the client.	P	ET	Yes
3. Obtain an engagement letter.	P	ET	Yes
4. Assign staff based on capabilities, competence, and availability.	P	ET	Yes
5. Develop a preliminary audit strategy.	ET	P	Yes
6. Perform risk assessment procedures to obtain an understanding of the entity and its environment, including internal control.	ET	P	Yes
7. Perform preliminary analytical procedures.	ET	P	Yes
8. Evaluate and document materiality and tolerable misstatements.	ET	P	Yes
9. Consider potential fraud implications.	ET	P	Yes
10. Identify and assess risk of material misstatement and develop responses to identified risks.	ET	P	Yes
11. Prepare an audit plan.	ET	P	Yes
12. Develop a time estimate.	ET	P	Opt <sup>a</sup>
13. Obtain partner approval of audit plan and staff assignments, and, if applicable, time estimates.	P	ET	Yes
14. Perform and document further audit procedures.	ET	P	Yes
15. Supervise procedures (including work of other auditors).	ET	P	Yes
16. Obtain legal representation letters.	ET	P	Yes
17. Evaluate and conclude on the effect of audit differences.	P	ET	Yes
18. Assist in drafting the financial statements.	ET	P	Yes
19. Perform final analytical review.	ET	P	Yes
20. Complete a presentation and disclosure checklist and read the financial statements.	ET	P	Yes

	Person or Group Responsible for Completing Step		Historical Financial Statements
	Primary Responsibility	Secondary Responsibility	Audits
Engagement Performance Quality Control Steps			
21. Obtain a management representation letter.	ET	P	Yes
22. Draft the report.	ET	P	Yes
23. Consider and document changes from the audit strategy, planning materiality, or audit plan.	ET	P	Yes
24. Review the workpapers.	P & ET	—	Yes
25. Determine that all review points and open items have been cleared.	ET	P	Yes
26. Obtain an engagement quality control review, if required by firm policy.	P	ET	Yes
27. Obtain consultation when appropriate and document and implement conclusions.	P	ET	Yes
28. Resolve any differences of opinion and document and implement conclusions.	P	ET	Yes
29. Prepare required client communications.	ET	P	Yes
30. Have the partner sign the report or transmittal letter.	P	ET	Yes
31. Evaluate the staff's performance.	ET	P	Yes
32. Maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the workpapers.	ET	P	Yes
33. Assemble and retain the workpapers for a sufficient period of time (subject to monitoring review).	ET	P	Yes

**Exhibit 1-2**

**Illustration of an Engagement Performance Bridging Document (Attestation Engagements)**

	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards					
			Forecasts and Projections			Other Attestations		
Engagement Performance Quality Control Steps	Primary Responsibility	Secondary Responsibility	Compilations	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures
1. Evaluate whether to accept/continue the engagement, considering the client's integrity and the firm's capabilities.	Partner (P)	Engagement Team (ET)	Yes	Yes	Yes	Yes	Yes	Yes
2. Communicate the partner's identity and role to the client.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
3. Obtain an engagement letter.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
4. Assign staff based on capabilities, competence, and availability.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
5. Plan the work and obtain background information about the entity, officers, accounting practices, etc.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
6. Evaluate and document materiality and tolerable misstatement.	ET	P	No	Yes	No	Yes	Yes	No
7. Consider potential fraud implications.	ET	P	No	No	No	Yes	Yes	No
8. Identify and assess risks of material misstatement and develop responses to identified risks.	ET	P	No	Opt	No	Opt	Opt	No
9. Prepare an engagement plan.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards					
			Forecasts and Projections			Other Attestations		
			Compilations	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures
10. Develop a time estimate.	ET	P	Opt	Opt	Opt	Opt	Opt	Opt
11. Obtain partner approval of engagement plan and staff assignments, and, if applicable, time estimates.	P	ET	Opt	Yes	Yes	Yes	Yes	Yes
12. Perform and document the procedures.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
13. Supervise procedures (including work of other accountants).	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
14. Evaluate the propriety of a step down to a lower level of service.	ET	P	Opt	N/A	Opt	Opt	N/A	Yes
15. Obtain legal representation letters.	ET	P	No	Opt	No	No	Opt	No
16. Draft (or assist in drafting) the financial information or subject matter.	ET	P	Yes	Yes	Yes	Opt	Opt	Opt
17. Perform analytical procedures.	ET	P	No	Opt	No	Yes	Opt	No
18. Complete a presentation and disclosure checklist and read the financial information.	ET	P	Yes	Yes	Opt	N/A	N/A	N/A
19. Obtain a management representation letter.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
20. Draft the report.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
21. Review the workpapers.	P & ET	—	Yes	Yes	Yes	Yes	Yes	Yes
22. Determine that all review points and open items have been	ET	P	Yes	Yes	Yes	Yes	Yes	Yes

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Engagements Subject to QC Standards					
			Forecasts and Projections			Other Attestations		
	Primary Responsibility	Secondary Responsibility	Compilations	Examinations	Agreed-upon Procedures	Reviews	Examinations	Agreed-upon Procedures
cleared.								
23. Obtain an engagement quality control review, if required by firm policy.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
24. Obtain consultation when appropriate and document and implement conclusions.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
25. Resolve any differences of opinion and document and implement conclusions.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
26. Have the partner sign the report or transmittal letter.	P	ET	Yes	Yes	Yes	Yes	Yes	Yes
27. Evaluate the staff's performance.	ET	P	Opt	Opt	Opt	Opt	Opt	Opt
28. Maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the workpapers.	ET	P	Yes	Yes	Yes	Yes	Yes	Yes
29. Assemble and retain the workpapers for a sufficient period of time (subject to monitoring review).	ET	P	Yes	Yes	Yes	Yes	Yes	Yes

**Exhibit 1-3**

**Illustration of an Engagement Performance Bridging Document (Compilation and Review Engagements)**

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements	
	Primary Responsibility	Secondary Responsibility	Compilations	Reviews
1. Evaluate whether to accept/continue the engagement, considering the client's integrity and the firm's capabilities.	Partner (P)	Engagement Team (ET)	Yes	Yes
2. Communicate the partner's identity and role to the client.	P	ET	Yes	Yes
3. Obtain an engagement letter.	P	ET	Yes	Yes
4. Assign staff based on capabilities, competence, and availability.	P	ET	Yes	Yes
5. Plan the work and obtain background information about the entity, officers, accounting practices, etc.	ET	P	Yes	Yes
6. Consider potential fraud implications.	ET	P	Yes	Yes
7. Prepare an engagement plan.	ET	P	Yes	Yes
8. Develop a time estimate.	ET	P	Opt	Opt
9. Obtain partner approval of engagement plan and staff assignments, and, if applicable, time estimates.	P	ET	Opt	Yes
10. Perform and document the procedures.	ET	P	Yes	Yes
11. Supervise procedures (including work of other accountants).	ET	P	Yes	Yes
12. Evaluate the propriety of a step down to a lower level of service.	P	ET	Yes	Yes
13. Draft (or assist in drafting) the financial statements.	ET	P	Yes	Yes
14. Perform analytical procedures.	ET	P	No	Yes
15. Complete a presentation and disclosure checklist and read the financial statements.	ET	P	Yes	Yes
16. Obtain a management representation letter.	ET	P	Opt	Yes
17. Draft the report.	ET	P	Yes	Yes
18. Review the workpapers.	P & ET	—	Yes	Yes
19. Determine that all review points and open items have been cleared.	ET	P	Yes	Yes
20. Obtain an engagement quality control review, if required by firm	P	ET	Yes	Yes

Engagement Performance Quality Control Steps	Person or Group Responsible for Completing Step		Historical Financial Statements	
	Primary Responsibility	Secondary Responsibility	Compilations	Reviews
policy.				
21. Obtain consultation when appropriate and document and implement conclusions.	P	ET	Yes	Yes
22. Resolve any differences of opinion and document and implement conclusions.	P	ET	Yes	Yes
23. Have the partner sign the report or transmittal letter.	P	ET	Yes	Yes
24. Evaluate the staff's performance.	ET	P	Opt	Opt
25. Maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of the workpapers.	ET	P	Yes	Yes
26. Assemble and retain the workpapers for a sufficient period of time (subject to monitoring review).	ET	P	Yes	Yes