

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ASSURANCE SERVICES QUALITY**

**CONTROL DOCUMENT**

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## INTRODUCTION

The Firm's quality control policies and procedures for the six elements of quality control are presented on the following pages. All employees and members of the Firm are made aware of these documents 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 (Centers) and has agreed to establish policies and procedures specific to the Firm's governmental audit practice and its ERISA employee benefit plan practice (as defined in the membership requirements) to comply with the applicable professional standards and the membership requirements of the respective Centers. The Firm is also registered with the Public Company Accounting Oversight Board ("PCAOB") which also provides certain guidance related to quality control and independence. 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<sup>1</sup> be members of the AICPA. Best efforts are made by the Firm to ensure compliance with this requirement. Also, as required by the membership requirements of the respective Centers, the CEO annually designates an Audit Partner to assume firm-wide responsibility for the quality of the Firm's governmental audit practice and an Audit Partner to assume firm-wide responsibility for the quality of the Firm's ERISA employee benefit plan practice.

The Quality Control Partner is responsible for the implementation and monitoring of the Firm's quality control system. Any questions, concerns, or recommendations about our quality control system should be communicated to the Quality Control Partner.

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<sup>1</sup> For purposes of this document, excluding Appendix 1 and 2, the term "Partner" will include anyone meeting the definition of "Partner Equivalent", as that term is defined in the AICPA Code of Professional Conduct, which may include Directors, Partners Emeritus, and Principals.

## **LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM (TONE AT THE TOP)**

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 CEO, 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 applicable 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 Quality Control (QC) Policies and Procedures based upon their comprehensive understanding of QC No. 10. The Firm communicates clear, consistent, and frequent actions and messages that emphasize the Firm's expectation that each individual has a personal responsibility for quality and is to follow the Quality Control Policies and Procedures. Such actions and messages include:
  - a. Providing a copy of the Firm's quality control document to all new professional employees, reviewing the document and its importance with them, and obtaining acknowledgment of their understanding.
  - b. Updating the Firm's Quality Control Policies and Procedures as needed to implement new authoritative guidance or address questions or issues that have arisen, and promptly notifying Firm personnel (and providing training when appropriate) about those revisions.
  - c. The Firm's QC Document is posted on the Firm's intranet and is accessible by all staff. On an annual basis, the Quality Control Partner communicates to professional staff the Document's location and importance to the Firm.
2. The CEO evaluates 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 Performance Evaluation, Compensation, and Advancement Policy and Procedures (covered in the Human Resources QC Policies and Procedures) do not place commercial considerations ahead of the quality of work performed.
3. The CEO, Quality Control Partner, Engagement Partners, and other Partners in the Firm demonstrate the importance of quality by their actions.
4. The Engagement Partner assumes responsibility for the overall quality of each engagement to which he or she is assigned, emphasizes the fact that quality is essential when performing engagements, and sets an appropriate example throughout all stages of the engagement for the other engagement team members to follow.
5. 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 provided via the Firm's Associate Handbook, which is located on the Firm's Intranet.
6. 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.

**LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM (TONE AT THE TOP)**  
**(Continued)**

7. The Firm rewards personnel who demonstrate a commitment to quality through its performance evaluation, compensation, and advancement system, as covered in the Human Resource QC Policies and Procedures.
8. 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.
9. At least annually, the Quality Control Partner reviews the leadership responsibilities for quality within the Firm policy and procedures to determine if they are appropriate and operating effectively. See the monitoring policy and procedures for performance of the monitoring element of the Firm's QC system.

## RELEVANT ETHICAL REQUIREMENTS

It is the policy of our Firm that all professional personnel be familiar with and adhere to relevant ethical requirements of the AICPA contained in the *Code of Professional Conduct*, the appropriate state Board of Accountancy, the appropriate state CPA Society, state statutes, and other regulatory agencies in performing their professional responsibilities. It is the policy of this Firm that, for engagements subject to the rules of the Securities and Exchange Commission (SEC), all professional personnel be familiar with and adhere to the relevant ethical requirements of the SEC and those of the PCAOB. 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, including any that may be more restrictive. In this regard, any transaction, event, circumstance, or action that would impair the Firm's independence or violate its Relevant Ethical Requirements Policy on an audit, attestation, review, compilation, or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under the *General Standards* and *Compliance With Standards Rules*) is prohibited. Additionally, when the Firm and its professional personnel encounter situations that raise potential independence threats, but such situations are not specifically addressed by the interpretations of the *Independence Rule* of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for Independence* and applying professional judgment to determine whether an independence breach exists. The Firm will take appropriate action to eliminate threats to independence 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 Engagement Partner is responsible for ensuring that services prohibited by the SEC are not performed for SEC audit clients, and for furnishing any communications required by the PCAOB prior to engagement acceptance and annually thereafter.

Notwithstanding the preceding policy, at the CEO's discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the Firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional standards, by Rule 2-01, *Qualification of Accountants*, of Regulation S-X of the Securities Exchange Act of 1934, or the PCAOB *Ethics & Independence Rules*. The procedures listed below are followed to ensure compliance with this policy:

1. All personnel have ready access to the relevant ethical requirements to which the Firm is subject. Those requirements include the AICPA *Code of Professional Conduct*, applicable state Boards of Accountancy, and applicable state CPA societies' ethical requirements. The Firm maintains a current copy of those ethical requirements online. The Firm expects its personnel to be familiar with those relevant ethical requirements.
2. All professional personnel are required to sign a representation when hired (and annually thereafter) acknowledging their familiarity with the Firm's Relevant Ethical Requirements Policy and Procedures, particularly with regard to independence. The representation also lists known circumstances and relationships, if any, that may create a potential threat to independence or violates the Firm's Relevant Ethical Requirements Policy and Procedures. Professional standards, including the AICPA's *Conceptual Framework for AICPA Independence* and the advice of the Quality Control Partner, are consulted if an employee is unsure if a threat to independence should be reported to Firm management.

## **RELEVANT ETHICAL REQUIREMENTS**

### **(Continued)**

3. All professional personnel are required to review the Firm's client list in conjunction with completing the representation letter annually for identification of threats to, or breaches of, independence. All professional personnel are also required to review the client list before they and their spouses or dependents obtain any security or other financial interest in an entity to determine whether the entity is on the list. The list of clients is maintained on the Firm's time and billing system and additions to the list are communicated on a timely basis. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility. All professional personnel are required to report on a timely basis, threats to, or breaches of, independence policies involving himself or herself and his or her spouse and dependents, when identified, and the corrective action taken or proposed. Annually, the CEO will perform procedures to ensure information received from Partners is complete and accurate.
4. Ethics training is provided for professional personnel as required by the applicable state Board of Accountancy. Additional training is provided as needed (or required) that covers the Firm's Relevant Ethical Requirements Policy and Procedures and the independence and ethical requirements of all applicable regulators.
5. To ensure that independence is properly addressed at the engagement level, engagement teams have a responsibility to provide the Firm with any relevant information about independence. In addition, as part of the acceptance and continuance decision, the Engagement Partner obtains and considers relevant information about the engagement and evaluates circumstances and relationships that could cause a potential threat to independence, if any. The Engagement Partner also takes responsibility for compliance with independence requirements. In evaluating potential independence threats, any familiarity threat related to senior personnel recurring on an attest engagement for a prolonged period will be considered, including any other specific rotation requirements of regulatory agencies or other authorities. Additionally, the work programs and forms in the accounting and auditing materials used by the Firm contain steps requiring an evaluation of independence on each new and recurring engagement. For clients of whom the Firm is not independent, the only attest service performed is a compilation and the Firm discloses its lack of independence in the related report.
6. All professional personnel are to remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the Engagement Partner, Quality Control Partner, or CEO of any circumstances or relationships that may create a potential threat to independence (such as a potential prohibited transaction) or an independence breach, so that appropriate action can be taken. With respect to PCAOB engagements, prior to obtaining any security or other financial interest in an entity, professionals will review the Restricted Entity List to determine whether the entity is included thereon. This review will also be performed by the professional's spouse and dependents.
7. If a potential threat to independence is identified, the Quality Control Partner accumulates and communicates relevant information to appropriate personnel so: (a) Firm management and 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.

## **RELEVANT ETHICAL REQUIREMENTS**

**(Continued)**

8. If performing a group audit, the Firm is required to obtain a written representation regarding the component auditor's independence with respect to the client. The auditing materials used by the Firm contain examples of representation letters used in such situations. Furthermore, in a review or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing materials used by our Firm contain steps to ensure compliance with this procedure.
9. The Engagement Partner has the primary responsibility for determining if there are unpaid fees (billed and unbilled) on any of his/her clients that would impair the Firm's independence. The engagement work programs and standard forms used by the Firm contain steps to ensure compliance with this procedure. The Firm's client accounts receivable listing and the Engagement Partner's knowledge of any unbilled fees should be considered in making this determination. In addition, the CEO and Area Coordinators have the secondary responsibility to review the Firm's accounts receivable listing on a periodic basis to identify potential independence problems.
10. The Engagement Partner has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services, individually or in the aggregate, threaten independence with respect to that client (including how the Firm was satisfied that client personnel had the skills, knowledge, or experience to oversee the nonattest services). The Firm will only provide nonattest services to an attest client when the client accepts its responsibilities. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in *Government Auditing Standards* or Rule 2-01 or Regulation S-X for ongoing, planned, and future audits. Firm engagement work programs for all attest engagements include steps to ensure compliance with this procedure.
11. The Engagement Partner has the primary responsibility for determining whether actual or threatened litigation has an effect on the Firm's independence with respect to the client. The Firm's independence could be impaired by litigation (a) between the client and the Firm, (b) with the client company's securities holders, and (c) from other third parties.
12. If the Firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If the Firm is engaged as principal auditor to report on a major fund, nonmajor governmental and enterprise funds, internal service fund, fiduciary fund, or blended component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the Firm reports on. The Engagement Partner has the primary responsibility for determining whether the Firm's relationship with entities in the governmental financial statements has an effect on independence.
13. The CEO has the primary responsibility for determining whether the Firm was a party to a cooperative arrangement with a client that was material to the Firm or the client.
14. Annually, the Retirement Plan Committee will monitor investments of the Firm and its benefit plans to ensure compliance with Firm policies.



## RELEVANT ETHICAL REQUIREMENTS (Continued)

15. The Engagement Partner, the Quality Control Partner, or the CEO is also 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 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.
16. The Quality Control Partner is responsible for obtaining the employee independence representation letters, reviewing them for completeness, and for accumulating relevant information relating to identified threats in relevant ethical requirements matters (including questions from the representation letters and those from other sources). In determining a resolution, this individual considers the AICPA's *Code of Professional Conduct*, including the *Conceptual Framework for Members in Public Practice* and the *Conceptual Framework for Independence*, and when necessary, consult the AICPA or appropriate State CPA Society, Rule 2-01 of Regulation S-X or Rules of the PCAOB for assistance in interpreting independence rules. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent workpaper files or other appropriate location and retained in accordance with the Firm's document retention policy. The Area Coordinators, the Quality Control Partner, or the CEO are also 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.
17. If a breach of independence is identified, the Firm promptly communicates the breach and the required corrective actions to (a) the Quality Control Partner, (b) the Engagement Partner, who (along with the Firm) has the responsibility to address the breach, (c) other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action, and (d) those charged with governance at the attest client. The Engagement Partner confirms to the Firm when required corrective actions related to the independence breach and noncompliance with these policies and procedures have been taken.
18. At least annually, the Quality Control Partner with the assistance of the CEO, reviews the Firm's relevant Ethical Requirements Policy and Procedures to determine if they are appropriate and operating effectively. This review is performed and documented by completing the applicable section of the "Monitoring Questionnaire" in PPC's *Guide to Quality Control*. Changes, if necessary, to the system are made based on the results of the review.

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

It is the policy of our Firm that, for all audit, attestation, review, compilation, and preparation service engagements, the acceptability of the client and the engagement be evaluated before the Firm agrees to provide professional services. The Firm will accept and continue only client relationships and specific engagements when it has determined that the requisite competence and capabilities (including adequate time and resources) exist within the Firm to perform the engagement and the Firm can comply with legal and relevant ethical requirements, as explained in the Assignment of Engagement Teams activity within the Human Resources section of this document. Additionally, the Firm will only undertake or continue relationships and engagements when the Firm has considered the integrity of the client and does not obtain information indicating that the client lacks integrity. The procedures listed below are followed to ensure compliance with this policy:

1. For each prospective client (or existing tax or consulting client) that requests for the first time an audit, attestation, review, compilation, or preparation service, the Partner making initial contact with the client is required to complete an “engagement acceptance form.” The engagement acceptance form is located in the accounting and auditing materials used by the Firm. That form documents, among other things, background information including financial information regarding the client and its operations; an assessment of the apparent integrity of management or its officers based on contacts or discussions with others; possible independence problems or conflicts of interest; an assessment of the Firm’s competence, capabilities, and resources, and appropriate Firm and individual licensure in the state(s) in which the client operates; and the results of communications with the client’s predecessor auditors or accountants (if applicable). The completed form is routed to the Area Coordinator who decides whether to accept or reject the prospective client and who documents that conclusion on the new client form. Should the Area Coordinator not be a Partner, an Assurance Partner’s signature will also be required.
2. For existing clients, the Partners reevaluate the acceptability of each client and engagement during the planning stage of each engagement. 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. In making the continuance decision, the Firm considers whether any significant issues or new information has arisen during the course of the relationship with the client and how such issues or information affects the ongoing client relationship. Generally, reasons that might surface in either the Firm-wide or individual engagement review that would cause the Firm to consider discontinuing services if the information had been available earlier include the following:
  - a. Significant changes in the client and its operations, such as retirement of senior management, other ownership changes, a decline in the perceived integrity of management, a change in the nature of the client’s business, or a decline in financial stability, or specific risks associated with the particular engagement.
  - b. Changes in the nature or scope of the engagement, including requests for additional services the Firm may not be adequately prepared to render.
  - c. Significant changes in the composition of the Firm, such as a change in the Firm’s professional competence (expertise), in a particular industry.
  - d. Significant unpaid fees (billed or unbilled) that may cause an independence problem or create doubt about the collectability of future fees.
  - e. The existence of conditions that would have caused the Firm to reject the client or engagement had such conditions existed at the time of initial acceptance.

**ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS  
AND SPECIFIC ENGAGEMENTS  
(Continued)**

- f. The client is in the development stage or operates in a highly specialized or regulated industry, (such as a financial institution, governmental entity, or employee benefit plan) that poses undue risk to the Firm.
- g. Engagements in which there may be substantial doubt about the entity's ability to continue as a going concern.
- h. More time is required to perform the engagement than the Firm has available.
- i. The client has ignored prior Firm recommendations, such as recommendations regarding the interpretation of accounting standards or the correction of internal control deficiencies.
- j. As to issuers, the review of services provided during the current engagement period for any services that are currently determined to be prohibited services.

The CEO and the Area Partners are responsible for deciding whether to discontinue providing all or certain services to a client or whether steps can be taken to mitigate the risk of continued services, e.g., requiring a down payment on fees before work commences, pay-as-you-go billing arrangements, alternative engagement procedures, etc.

- 3. The CEO or the Engagement Partner document how issues identified during the acceptance and continuance process, if any, 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. If situations occur after the commencement of an engagement and while work is in process that indicates the Firm should consider withdrawing from the engagement, the Engagement Partner and the CEO are to be notified of the circumstances. In this situation, the Firm considers any professional, regulatory, or legal requirements for the Firm to remain associated with the client and the engagement or to report the withdrawal to regulatory authorities. In addition, the Firm considers whether withdrawing from the engagement or discontinuing the client relationship is appropriate. Circumstances that may cause the Firm to withdraw would include:
  - a. An identified independence threat that cannot be mitigated by applying safeguards.
  - b. The client's unwillingness to make a material correction to the financial statements or accept a modified report or when a modification of the standard report will not adequately indicate the deficiencies in the financial statements taken as a whole.
  - c. Failure by the client to take action with regard to identified fraud or suspected fraud or noncompliance with laws and regulations discovered during the engagement.
  - d. The discovery of facts after the engagement commences that may have caused the Firm to reject the engagement had those facts been known prior to starting the work, e.g., a significant risk of fraud or significant deficiencies in internal control.

**ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS  
AND SPECIFIC ENGAGEMENTS  
(Continued)**

- e. The client provides information that is incorrect, incomplete, or otherwise unsatisfactory and refuses to provide additional or revised information.
- f. The inability to perform the inquiry and analytical procedures considered necessary for a SSARS or SSAE review, and, for a SSARS review, it is inappropriate to issue a compilation report.
- g. The client's refusal to provide representations in an audit, or a SSARS or SSAE review and, for a SSARS review, it is not appropriate to issue a compilation report.
- h. In a SSAE review engagement, the client is the responsible party and does not provide a written assertion.
- i. Other information in a client-prepared document containing the Firm's attest report is materially inconsistent with the information in the report, and the client does not revise the information to eliminate the inconsistency.

The CEO and the Area Partners are responsible for deciding whether to withdraw from an engagement.

- 5. If, based on the facts and circumstances identified in performing Steps 2 and 4, the CEO and Area Partners conclude that the Firm should discontinue providing all or certain services to a client or should withdraw from a current engagement, the CEO and the Engagement Partner will determine how the client and those charged with governance should be informed about that decision. Furthermore, the CEO will consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by the Engagement Partner or the CEO of the name of any client to which services are discontinued. Significant issues, consultations, conclusions, and the basis for the conclusions should be documented when withdrawal from an engagement or from both the engagement and the client relationship occurs.
- 6. The Engagement Partner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter documents the Firm's agreement 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.
- 7. The Engagement Partner is responsible for:
  - a. Becoming satisfied that appropriate procedures regarding the acceptance and continuance of client relationships have been followed.
  - b. Determining that the acceptance and continuance conclusions reached are appropriate.
  - c. When information is obtained that would have caused the Firm to decline the engagement had such information been known initially, promptly communicating such information to the Firm so that the Firm and Engagement Partner can take the necessary action.

**ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS  
AND SPECIFIC ENGAGEMENTS  
(Continued)**

8. If the Firm discovers a potential conflict of interest during the acceptance and continuance decision, the Quality Control Partner determines whether it is appropriate to accept or continue the engagement. The Quality Control Partner will consult with the CEO, or others as considered necessary. If the engagement is accepted or continued, the ethical requirements under ET 1.110.010, *Conflicts of Interest*, are considered, including whether a conflict of interest that might be perceived as impairing objectivity was disclosed and consented to by the client or other appropriate parties.
9. At least annually, the Quality Control 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 policy and procedures for performance of the monitoring element of the Firm's QC system.

## 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 applicable legal and regulatory requirements, and appropriate reports are issued in the circumstances. Having effective QC Policies and Procedures over the human resources element helps ensure the proficiency of its personnel. The activities of a comprehensive human resources QC system include:

- Recruitment and hiring.
- Determining capabilities and competencies.
- Assignment of personnel to engagements.
- Professional development.
- Performance evaluation, compensation, and advancement.

Policies and procedures for each of these activities are described below. At least annually, the Quality Control 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 policy of our Firm that recruitment and hiring decisions be based on an objective evaluation of our personnel needs, that candidates possess the appropriate characteristics to perform competently, and that new employees be adequately informed of the Firm's policies and procedures. The procedures listed below are followed to ensure compliance with this policy:

1. Periodically, the CEO and Area Coordinators assess the Firm's personnel needs by considering, among other things, criteria such as our ability to serve current clientele, anticipated growth, personnel turnover, individual advancement, current staff workload, quality of life, and succession plans.
2. In fulfilling our recruitment and hiring plans, we seek to employ individuals with high levels of integrity, competence, intelligence, maturity, and motivation. In this regard, we normally hire college graduates for entry level staff positions whose academic training will enable them to take and pass the CPA exam. However, we will hire paraprofessionals who do not possess a college degree, but whose accounting experience and personal qualifications indicate a likelihood of adequate ability.
3. Determination of the techniques to be used to recruit candidates and actual employment decisions will be made by the CEO and Area Coordinators. Other personnel who are involved in the recruitment and hiring process will be informed of the techniques to be used.
4. When evaluating a prospective employee, we consider, among other things, work experience, the candidate's grade point average and college course concentration in accounting and related courses (with more emphasis given to these for candidates who are new graduates), personal achievements, and personal interests. The degree to which college transcripts, work references, and other qualifications are investigated is left to the discretion of those involved in the hiring process.
5. The Firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.

## HUMAN RESOURCES (Continued)

### *Determining Capabilities and Competencies*

It is the policy of our Firm to determine whether personnel possess the requisite capabilities and competencies. In making this determination, the Firm primarily considers qualitative measures, as opposed to quantitative ones. The procedures listed below are followed to ensure compliance with this policy:

1. Periodically, the Engagement Partners, Area Coordinators, and the CEO assess the capabilities and competencies of Engagement Partners to help assure engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that appropriate reports are issued in the circumstances. 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 system of quality control and the AICPA revised *Code of Professional Conduct*.
  - b. An understanding of the performance, supervision, and reporting aspects of the service to be performed.
  - c. Technical proficiency in the applicable accounting, auditing, and attestation professional standards, including those directly related to the clients' industries and transactions.
  - 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. Professional judgment in discharging assigned responsibilities, including the ability to exercise professional skepticism and identify areas requiring special consideration.
  - 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. If a Partner or other engagement team senior member lacks appropriate experience in the assigned industry or area, he or she obtains appropriate education and/or experience before performing engagement planning procedures.
3. In the unusual situation where an engagement is found to be materially nonconforming after report issuance (such as during monitoring, peer review, or a regulatory inspection), the Firm takes appropriate action, as further described in the monitoring element of the Firm's QC Policies and Procedures.
4. Performance evaluations are conducted, at least annually, to determine the capabilities and competencies possessed by professional staff other than Partners.

## HUMAN RESOURCES (Continued)

### *Assignment of Engagement Teams*

It is the Firm's policy that each engagement be supervised by an Engagement Partner with appropriate competence, capabilities, and authority. Additionally, staff assigned to engagements possess the necessary competence and capabilities to (a) perform engagements that comply with professional standards and applicable 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 CEO or Area Coordinator clearly defines and communicates the responsibilities and authority of an Engagement Partner to that Partner and evaluates their 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. The Engagement Partner obtains satisfaction that the engagement team (including any external specialists) meets the objective of the Assignment of Engagement Teams policy of the Firm's Human Resources QC element.
4. Periodically, the Engagement Partners, Area Coordinators, and the CEO assess the staffing (including Partner assignments) requirements of each client and engagement and develop a Partner and associate assignment plan. Any considerations that emerge from this assessment that affect the hiring plans of the Firm are communicated to those responsible for recruitment and hiring. In making associate assignments, consideration is given to factors such as:
  - a. The engagement type, size, significance, complexity, and risk profile.
  - b. Special expertise and experience necessary for the engagement, including knowledge of relevant IT.
  - c. New or emerging professional standards and applicable legal and regulatory requirements that may affect the engagement.
  - d. Recent continuing education relevant to the service to be provided and, if applicable, the industry (for example, staff who have met the continuing education requirements of the GAO's *Government Auditing Standards*).
  - e. Appropriate individual licenses for each staff member, including licenses for states outside of where the individual primarily practices.
  - f. The timing and length of the engagement.
  - g. The continuity and periodic rotation of associates.
  - h. Opportunities for on-the-job training.
  - i. Previously demonstrated competencies (including consideration of the results of monitoring, inspections, peer reviews, and recent performance evaluations).



## HUMAN RESOURCES (Continued)

### *Assignment of Engagement Teams (Continued)*

- j. Personnel availability and the involvement of supervisory personnel.
  - k. Situations where possible conflicts of interest, objectivity, or independence problems may exist including, where applicable, circumstances where the assigned staff is not independent under *Government Auditing Standards* or rules promulgated by the U.S. Department of Labor or, as to issuer clients, rules and regulations of the Securities and Exchange Commission or the PCAOB.
  - l. The extent of supervision each staff member needs.
  - m. Non-CPA Partners cannot be ultimately responsible for any audit, attestation, or SSARS engagement.
5. The Firm recognizes that many modifications to the assignments schedule will be required because of changes in client circumstances that affect the competencies appropriate for the engagement, ongoing consideration of competencies possessed by Firm Partners and personnel assigned to particular engagements, the addition or loss of clients, associate turnover, delays in the timing of work, or other unforeseen events. Modifications are made based on an informal meeting of Partners affected by the changes and after a reconsideration of the planning factors discussed in the above steps. Any disputes regarding assignment of personnel are resolved by the Area Coordinators. Associates are informed of staffing changes and new assignments.
6. Assignment of Partners to engagements is subject to the approval of the Area Coordinator and CEO. When assigning Partners to SEC engagements, the Area Coordinator and CEO will provide for the rotation of the Engagement and Engagement Quality Review Partner in accordance with SEC Rule S-X 2-01(c) (6) Partner Rotation and related interpretations, which generally require rotation of the Engagement and Engagement Quality Review Partner off the engagement every five years, unless permitted by an exemption of the SEC rule requiring partner rotation.

### *Professional Development*

It is the policy of our Firm that all professional personnel comply with continuing professional education (CPE) rules governing our Firm; that all professional associates maintain an adequate awareness and understanding of current developments in professional standards, including developments that support the levels of service and industries of engagements provided; and that all professional associates assist in the training and development of associates under their supervision. The procedures listed below are followed to ensure compliance with this policy:

- 1. Annually, the Firm Director of Learning and Quality Enhancement, Area Coordinators, and the CEO assess the Firm's CPE needs and plan our professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours and subject matter (which may include industry-specific, accounting and auditing, and ethics) needed by each professional to comply with the CPE rules governing our Firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging professional standards and regulatory and legal requirements; the results of the Firm's annual and ongoing monitoring, and the Firm's needs for specialists or experts in a particular industry or service area.
- 2. The Firm CPE Coordinator, Area Coordinators, and the CEO monitor employee progress toward meeting the CPE plan.

## **HUMAN RESOURCES (Continued)**

### *Professional Development (Continued)*

3. Generally, only CPE alternatives that qualify for credit under the CPE rules that govern our Firm will be considered when planning the Firm's PD program. Such alternatives normally include seminars and conferences sponsored by the AICPA, state society, or other professional organizations; video training courses, satellite conferences, and webcasts, nano-learning programs; self-study courses, including online training and adaptive learning programs; in-house seminars and programs; acting as an instructor, speaker, or discussion leader; university or college courses; and published books, articles, and CPE courses. Specifically, when CPE hours are to be fulfilled by in-house seminars, workshops, or discussion groups, each in-house program should comply with the following standards:
  - a. The program should maintain and/or increase the professional competence of participants.
  - b. The stated program learning objectives should specify the level of knowledge the participant should have attained or the level of competence he or she should be able to demonstrate upon completing the program.
  - c. The education and/or experience prerequisites for the program should be stated.
  - d. Participants should be informed in advance of pertinent course information.
  - e. Only those participants with the appropriate level of education and/or experience should attend the program.
  - f. The program should be developed by an individual qualified in the subject matter and knowledgeable in instructional design.
  - g. Program materials should be technically accurate, current, and sufficient to meet the program's learning objectives.
  - h. Before program materials are used, they should be reviewed to the extent necessary by a qualified person(s) other than the preparer(s) to ensure the program is technically accurate, it is based on current professional standards, and it is sufficient to achieve the stated learning objectives.
  - i. The reviewer's technical competence and knowledge of instructional design should at least equal that of the developer.
  - j. Instructors should be qualified with respect to both program content and teaching methods used.
  - k. The number of participants and physical facilities should be appropriate for the teaching method(s) specified.
  - l. Each program should include an effective means for evaluating quality.

## **HUMAN RESOURCES (Continued)**

### *Professional Development (Continued)*

4. To comply with the documentation requirements of the AICPA, the state boards of accountancy, the U.S. Government Accountability Office, and other regulatory agencies for CPE credit, the Firm maintains appropriate CPE records, among which are the following:
  - a. For each professional for the most recent five years, a record is maintained that contains the following information for each credit hour claimed:
    - (1) Type of CPE activity (seminar, in-house program, blended learning, self-study, nano-learning, independent study, etc.).
    - (2) Sponsor.
    - (3) Title of program and description of content.
    - (4) Dates attended or completed.
    - (5) Location of program.
    - (6) CPE credit hours claimed.
  - b. For each in-house CPE program sponsored by the Firm, a certificate of completion is provided to each participant. Additionally, the following records are maintained for the most recent five years:
    - (1) A record of participation, indicating the number of CPE hours claimed for each participant.
    - (2) Name(s) and qualifications of the instructor(s), including state(s) of licensure, license numbers, and license status.
    - (3) The date(s) and location(s) of the program.
    - (4) Results of program evaluations.
    - (5) A copy of the program materials (course announcement, reading materials, problems, case studies, visual aids, instructors' manuals, etc.).
    - (6) A record of the name(s) and qualification(s) of the developer(s) and reviewer(s), including those related to programs purchased from other entities.
    - (7) A record of how CPE credits were determined.
  - c. For all other CPE programs or activities, the following records are maintained for the most recent five years:
    - (1) For group, blended learning, and independent study programs, a certificate or other verification supplied by the program sponsor.
    - (2) For a university or college course that is successfully completed for credit, a record of the grade the person received.

## **HUMAN RESOURCES (Continued)**

### *Professional Development (Continued)*

- (3) For a self-study program or nano-learning, a certificate of satisfactory completion of a qualified assessment provided by the program sponsor.
  - (4) For a published book, article, or CPE program, evidence of publication (a copy of the book, journal, or course development documentation) that names the CPA as author or contributor, the writer's statement supporting the number of CPE hours claimed, and the name and contact information of the independent reviewer(s) or publisher.
- 5. Each professional is responsible for complying with applicable continuing professional education requirements to maintain technical competency. Accordingly, all professionals are encouraged to engage in self-development activities. To assist in this endeavor, the Firm maintains a current on-line library, ensures that professional personnel have ready-access to relevant information about new or emerging changes in professional standards and regulatory and legal requirement or business activities, and conducts training sessions on significant changes, if necessary. All professionals are encouraged to bring to the attention of the Quality Control Partner any news item that they believe should be circulated within the Firm.
  - 6. The Firm recognizes the importance of on-the-job training and has adopted, as a part of the Firm's engagement performance QC system, the use of work programs to assist professionals in performing their work. Also, as noted in the Firm's QC system for assigning personnel, professionals are assigned to work on a variety of jobs and under different supervisors (to the extent practical) to maximize on-the-job training. Personnel with supervisory responsibility are reminded to be constantly aware of situations where they can provide on-the-job training.
  - 7. The Firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in professional development activities such as completing external professional development programs, becoming members of professional organizations, serving on professional committees, writing for professional publications, and speaking to professional groups.

## **HUMAN RESOURCES (Continued)**

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

It is the policy of our Firm that performance evaluation, advancement, and compensation decisions for professional personnel are based on a timely and objective evaluation of individual performance, that the professional personnel selected for advancement should have the necessary qualifications to fulfill their assigned responsibilities, and that compensation of personnel, including Partners, be based in part on the quality of their work. The procedures listed below are followed to ensure compliance with this policy:

1. Associate classification levels are used to designate experience, to evaluate individual performance, and to establish criteria for promotion and compensation. The following associate levels and related performance criteria are used by the Firm:
  - a. Associate
  - b. In-Charge Associate
  - c. Senior Associate
  - d. Manager
  - e. Senior Manager
  - f. Director
  - g. Principal
  - h. Partner Emeritus
  - i. Partner

The levels of responsibility inherent in various professional associate classifications are defined in the Firm's Associate Handbook. (Principal, Partner Emeritus, and Partner are all considered to be "higher" than the Director level, as that term is used throughout this document.) The Handbook provides information about advancement policies and procedures. The CEO issues updates as needed to incorporate changes made by the Firm.

2. The performance of personnel is continuously evaluated, and personnel are periodically advised of their progress. Personnel files are maintained containing documentation relating to the evaluation process.
  - a. All professional employees receive an annual evaluation of their performance. Such counseling interviews are conducted under the supervision of the Area Coordinators. These evaluations summarize any periodic evaluations received on engagements. The individual's progress, strengths, weaknesses, future objectives, and the Firm's future objectives are among the items discussed. Documentation of the interviewer, evaluation forms, and staff assessment are prepared under the supervision of the Area Coordinators. Additionally, the Firm has established a mentor system whereby a management level person is assigned to all professionals. The mentor system is designed to enhance the overall development of our professionals and prepare the next generation of leaders to successfully continue the growth of the Firm by providing guidance with regard to Firm culture, preferred work methods, practical knowledge, and interpersonal skills.

## **HUMAN RESOURCES** **(Continued)**

### *Performance Evaluation, Compensation, and Advancement (Continued)*

- b. Professionals are evaluated on attributes such as, but not limited to, the following:
  - (1) Commitment to quality.
  - (2) Competency and technical knowledge.
  - (3) Integrity.
  - (4) Personal attitude.
  - (5) Analytical and judgmental skills.
  - (6) Communication skills.
  - (7) Leadership and training skills.
  - (8) Client relationships.
  - (9) Professional demeanor and appearance.
- c. The CEO and Area Coordinators review the system of personnel evaluation and counseling to ensure:
  - (1) Procedures for evaluation and documentation are being followed.
  - (2) Requirements established for advancement are being met.
  - (3) Personnel decisions are consistent with evaluations.
  - (4) Recognition is given to outstanding performance.
- 3. Annually, each Partner, Principal, and Director complete a self-evaluation form and has an opportunity to evaluate all other Directors, Principals, and Partners. These evaluation forms are routed to the CEO and Executive Committee, who reviews them with each Partner, Principal, or Director as considered necessary. A specified Partner or committee of Partners reviews the CEO's performance. Director, Principal, and Partner compensation decisions are based partly on these evaluations.
- 4. At least annually, and on an ad hoc basis if necessary, the Partners of each practice area meet as a committee to discuss advancement, compensation, and termination decisions. In considering advancement and compensation decisions, associate performance evaluations and progress within associate classifications are given great priority; however, economic conditions, such as profits and future growth potential, are also considered in each decision.

## ENGAGEMENT PERFORMANCE

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 difficult 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 documentation for ease of understanding. The activities are segregated as follows:

- Engagement performance and documentation
- Engagement quality control review
- Engagement quality review (PCAOB only)
- Consultation and differences of opinion

Policies and procedures for each of those engagement performance activities are described below. At least annually, the Quality Control Partner reviews the Firm's Engagement Performance 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.

### *Engagement Performance and Documentation*

It is the policy of our Firm that all preparation service, 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, applicable regulatory and legal requirements, and the Firm. In this regard, the procedures listed below are followed by all personnel assigned to those engagements:

1. The Firm's system of engagement performance quality control steps, as well as the responsibilities for implementation, are provided for in this document, appendices, and in various checklists, work programs, report examples, and other practice aids utilized by the Firm. Other practice aids may be substituted or used as approved by the Firm's Quality Control Partner. Such approval is generally documented by the inclusion of these items on the Firm's A&A Toolkit.
2. In audit and attestation engagements, the Engagement Partner takes responsibility for the direction, supervision, and performance of the engagement, ensuring that professional standards and applicable legal and regulatory requirements are complied with and the Firm's policies and procedures are followed. The Engagement Partner also takes responsibility for review of the work performed in accordance with the Firm's review policies and procedures and prior to issuing the report, determines that sufficient engagement evidence has been obtained to support the conclusions reached and for the report to be issued.
3. In SSARS engagements, responsibility for the direction, supervision, planning and performance of the engagement in compliance with professional standards and applicable legal and regulatory requirements lies with the Engagement Partner. Additionally, the Engagement Partner takes responsibility that the accountant's report is appropriate in the given circumstances and that appropriate engagement documentation maintained.
4. The Firm complies with time limits established by professional standards and laws and regulations that address the assembly of final engagement files for specific types of engagements.

## **ENGAGEMENT PERFORMANCE (Continued)**

### *Engagement Performance and Documentation (Continued)*

5. The Firm retains engagement documentation for a period of time sufficient to meet the needs of the Firm, professional standards, and laws and regulations. Any uncertainties regarding the retention of engagement documentation are addressed by the Firm's Quality Control Partner, with assistance of Firm legal counsel and insurance carriers, as appropriate.
6. The Firm protects the confidentiality, custody, integrity, accessibility, and retrievability of engagement documentation through staff training regarding client confidentiality rules, and adequate and appropriate controls over the custody, integrity, accessibility, and retrievability of the Firm's engagement documentation.

The Firm adopts and integrates within its quality control system the use of PPC's accounting and auditing materials and practice aids. This QC document, the PPC materials, 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 requiring a higher level of performance or documentation than the minimum specifically required by our Firm's QC Policies and Procedures nor to override 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 (EQCR) should be performed, and to perform an EQCR for all engagements that meet those criteria. EQCRs 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 EQCR. In establishing such criteria the Firm considers:
  - a. The structure and nature of the Firm's practice.
  - b. The nature of the engagement, including whether it involves a matter of public interest.
  - c. Whether unusual circumstances or risk have been identified relating to the engagement, engagement service type, or industry.
  - d. Whether laws or regulations require an engagement quality control review to be performed.
2. If no engagements meet the criteria established by the Firm for EQCR, no reviews are required to 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 EQCRs be performed on audit engagements as considered necessary. Considerations regarding the need for an EQCR include, among others, engagements in a high risk industry or ones with going concern considerations, first year Single Audits, leveraged ESOPS, SOC engagements, or new industries or practice areas in which the Firm has minimal experience. Engagements subject to attestation standards, preparation service, compilations, and reviews are not required to have an EQCR performed.



## **ENGAGEMENT PERFORMANCE (Continued)**

### *Engagement Quality Control Review (Continued)*

5. If differences of opinion occur between the Engagement Partner and the engagement quality control reviewer, appropriate differences of opinion procedures will be followed (see the Consultation and Differences of Opinion section of the QC document), and documentation of the resolution of conflicting opinions will be finalized before the release of the report.
6. When the Firm does not have qualified personnel to perform the EQCR, the Firm contracts with suitably qualified external individuals or other firms to perform the review. The criteria in Procedure 3 under EQCR's in Appendix 1 are followed in selecting qualified external reviewers. The engagement quality control reviewer performs and documents review procedures as required by professional standards.

### *Engagement Quality Review (PCAOB only)*

It is the Firm's policy to perform engagement quality reviews (EQR) of audits and interim reviews on engagements subject to PCAOB standards. The objective of the EQR is to perform an evaluation of the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance. See Appendix 1 and Appendix 2 for more information regarding this review.

PCAOB standards require a minimum of two reviews for audits and interim reviews: that of the Partner and the EQR reviewer. The Firm requires audits subject to PCAOB standards to have three reviewers as follows:

- o If the Engagement Partner performs both the Detail and Engagement Partner reviews (as described in the PPC review and supervision form), another qualified reviewer must then complete a second review (documented using the Brown Edwards Second Reviewer Form for PCAOB engagements), and a third review, the EQR review, is also required.
- o If a qualified reviewer who is not a Partner performs the Detail Review, followed by the Engagement Partner's review, the EQR review again constitutes the third required review, and the Brown Edwards Second Reviewer Form for PCAOB engagements is not required.

For interim reviews, the Firm requires only two reviews: the detail and Engagement Partner review (which may be performed by the same person) followed by an EQR.

In all cases, individuals performing and signing appropriate sections of the review and supervision forms must be qualified reviewers, as defined elsewhere in this document.

## ENGAGEMENT PERFORMANCE (Continued)

### *Consultation and Differences of Opinion*

It is the policy of our Firm that personnel refer to authoritative literature or other sources when appropriate. Our Firm also recognizes the need for a constant exchange of ideas and opinions about technical issues, and it is our policy that all professional personnel seek consultation, on a timely basis, within or outside the Firm whenever differences of opinion occur or uncertainty exists about the answer to a technical question; the application of a professional procedure or standard; the application of a rule, regulation, or procedure of a regulatory agency; or the application of a Firm policy. The procedures listed below are followed to ensure compliance with this policy:

1. The Firm maintains or provides ready access to an adequate and up-to-date reference library that includes current authoritative reference materials, as well as industry and other specialized materials related to clients served. Professional staff should consult those materials to research technical issues.
2. While the Firm recognizes that 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 difficulty or contentiousness, may require consultation:
  - a. Any engagement in which a qualified/modified 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. When an issue arises that requires consultation, the issue should first be discussed by the members of the engagement team. If, in the Engagement Partner's opinion, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team disagrees with the resolution, the procedure in Step 8 should be followed.
4. If the Engagement Partner believes additional consultation is necessary, the issue should be discussed with an individual in the Firm who has appropriate knowledge, seniority, and experience for the issue in question. When the engagement team is unaware of the name of an individual in the Firm who possesses such qualities, the Quality Control Partner should be consulted for the name of such an individual. Those consulted with are given all the relevant facts to enable them to provide informed advice. If the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team or other individuals who consulted on the issue disagree with the resolution, the procedure in Step 8 should be followed.

## ENGAGEMENT PERFORMANCE (Continued)

### *Consultation and Differences of Opinion (Continued)*

5. If the Engagement Partner believes that additional consultation beyond that available within the Firm is necessary, the issue should be discussed with an individual outside the Firm who has relevant specialized expertise. Such outside individuals include, but are not limited to, CPAs at other firms, the AICPA Technical Hotline, AICPA Audit Quality Centers, other professional and regulatory bodies, the SEC, and commercial organizations that provide relevant quality control services. Those consulted with are given all the relevant facts to enable them to provide informed advice. In determining the professional qualifications and reputations of the outside specialists, the Firm should consider, among other things, the following matters:
  - a. The professional certification, license, or other recognition of the competence of the individuals in their areas of expertise, as appropriate.
  - b. The reputation and standing of the individuals in the views of his or her peers and others familiar with his capability or performance.
  - c. The relationship, if any, of the specialist to the client.

If, in the Engagement Partner's opinion, the issue is resolved, additional consultation is not necessary. However, if any member of the engagement team or other individual in the Firm who consulted on the engagement disagrees with the resolution, the procedure in Step 8 should be followed.

6. Certain accounting, audit, or attestation engagements may require the Firm to consult with nonaccounting or nonauditing specialists such as actuaries, appraisers, attorneys, engineers, and geologists. The Firm follows the guidance in *AICPA Professional Standards* at AU-C 620 and AT-C 105 or PCAOB Auditing Standards AS 2501, as applicable when such consultations are necessary. If any member of the Firm or engagement team disagrees with the advice of a nonaccounting or nonauditing specialist, the procedure in Step 8 should be followed.
7. The nature and scope of consultations involving contentious or difficult issues are agreed-upon by both the individuals seeking consultation and the individuals consulted. Such consultations are 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, how those decisions were implemented, and that the conclusions resulting from the consultation were understood by both the individuals seeking consultation and the individuals consulted.
8. If differences of opinion exist within the Firm as to the resolution of a consultation issue, the matter should be brought to the attention of the CEO. The CEO, in consultation with the Firm Quality Control Partner, will resolve any disputes as to the proper course of action taken by the Firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented should be documented. Any party to the consultation who disagrees with the final conclusion has the option of documenting his or her disagreement by preparing a memorandum and filing it in the workpapers. The report may not be issued without appropriate reviewer sign off.
9. All technical research and consultations that are unusual, controversial, or complex and material in nature should be documented in a memorandum to the workpapers.

## MONITORING

It is the policy of our Firm that our 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, and operating effectively. Monitoring activities include engagement quality control review (EQCR) and inspection. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the Firm's QC system. The policies and procedures relating to EQCR are addressed as part of the engagement performance quality control element and are not repeated here. The retrospective monitoring activities performed by the Firm relate to inspection and are the primary activities addressed in the Firm's monitoring policy and procedures.

As an integral part of the monitoring process, inspection procedures are performed on all elements of the Firm's quality control system at least annually (with exception of the peer review year) to determine whether the Firm has complied with professional standards, applicable legal and regulatory requirements, and its stated quality control policies and procedures. The procedures listed below are followed to ensure compliance with this policy.

1. Annually, the Quality Control Partner selects a team (hereafter referred to as "inspectors") to perform inspection procedures on the Firm's quality control system. The inspectors should possess adequate technical knowledge and experience and, when practical, are not directly involved in the administration, supervision, or performance of the QC procedures or engagements each will inspect. Additionally, such individuals are free of any current or past limitation or restriction on their ability to practice public accounting. One inspector is designated as the Team Captain. The inspection includes 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 membership requirements of the respective audit quality centers.
2. The Team Captain is responsible for determining the scope of the inspection, developing the inspection procedures, and performing the inspection. The Quality Control Partner can require at his discretion that the inspection scope and procedures be approved by him before the inspection commences. The Team Captain should follow the guidelines listed below when determining the scope and the inspection procedures:
  - a. The inspection should be completed timely.
  - b. The inspectors use the appropriate Monitoring Program in PPC's *Guide to Quality Control* as a basis for a work program. The inspection covers all of the Firm's stated quality control procedures and includes a representative sample of administrative files, personnel files, engagement workpapers, and other documentation. The engagements selected for inspection are taken from the complete engagement population, and include a cross-section of the Firm's engagements. The criteria for engagement selection may include, but are not limited to, the following, as applicable:
    - (1) A cross-section of the Firm's governmental audit practice considering the number and types of governmental audits (e.g. single audits and program-specific audits and other compliance audits and attestation engagements performed under various federal, state, or local agency audit guides).
    - (2) A cross-section of the Firm's ERISA employee benefit plan audit practice covering each of the types of plan audits (e.g. defined benefit, defined contribution, health and welfare, multi-employer, ESOPs, limited and full scope) and the numbers of each in the practice.
    - (3) A cross-section of the Firm's FDIC Improvement Act of 1991 (FDICIA) audit practice, which encompasses federally insured depository institutions with \$500 million or more in total assets at the beginning of the fiscal year.

## **MONITORING**

### **(Continued)**

- (4) A cross-section of the Firm's issuer audits and other engagements performed under PCAOB standards.
  - (5) A cross-section of the Firm's broker-dealer practice considering the number and types of broker-dealer audits (carrying and non-carrying).
  - (6) A cross-section of the Firm's service organization control engagements (SOC 1 and SOC 2 engagements).
  - (7) Other specialized, complex, and high-risk engagements (for example, insurance companies and financial institutions not subject to FDICIA requirements).
  - (8) First-year engagements.
  - (9) A cross-section of engagements based on the level of service performed (e.g., audit, review, compilation, preparation service, and attestation).
  - (10) A cross-section of engagements from various Partners having accounting and auditing responsibilities.
  - (11) Significant client engagements, such as clients in industries that represent 10 percent or more of the Firm's A&A Practice.
  - (12) Engagements for which there have been complaints or allegations from Firm personnel, clients, or other third parties that the work performed by the Firm failed to comply with professional standards, applicable legal and regulatory requirements, or the Firm's system of quality control.
  - (13) Engagements in which there were significant disagreements among team members or between the engagement quality control reviewer and the Engagement Partner.
  - (14) Engagements involving complex issues requiring consultation.
  - (15) Types of engagements or engagements in areas that have had negative results in other internal or external reviews.
  - (16) Engagements from a merged practice.
  - (17) Certain employee benefit plan and municipal engagements released by a Director and referred to in Appendix 2.
- c. The inspection procedures should include inspection, observation, and inquiries to determine whether:
- (1) The Firm's guidance materials and practice aids are reliable and suitable, and checklists, forms, programs, or other documentation required by the Firm's QC system have been properly completed.

## **MONITORING** **(Continued)**

- (2) Administrative and personnel policies have been complied with and are appropriately documented.
  - (3) Procedures performed on engagements are in accordance with the requirements of professional standards, applicable regulatory and legal requirements, and Firm policies.
  - (4) The engagement workpapers provide adequate evidence to support conclusions, opinions, and presentations resulting from that engagement.
  - (5) The financial statements, reports, and other presentations resulting from the engagements conform to the measurement, presentation, and disclosure requirements of professional standards and applicable legal and regulatory requirements.
- d. The inspection scope, procedures, and findings are documented in the work program.
3. At the conclusion of the inspection, the inspectors are responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed and (b) discussing the results of the inspection with the supervisory 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, the deficiencies are summarized and evaluated to determine whether:
- a. Existing quality control policies and procedures should be modified.
  - b. Additional emphasis should be placed on specific services, industries, or areas for future engagements.
  - c. Any deficiencies noted in the monitoring team's communication affect specific audit engagements (as determined by the Engagement Partners).
- The scope of the inspection, the findings, and the recommendations are then reported to Partners.
4. The Firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during the inspection:
- a. Take appropriate remedial action directed toward the individual engagement or person.
  - b. Revise the Firm's Quality Control Policies and Procedures.
  - c. Discipline individuals who fail to follow the Firm's QC Policies and Procedures.
  - d. Communicate the findings to those responsible for training and professional development.
5. In addition, if a materially nonconforming engagement or other significant deficiency is identified, the Firm takes appropriate action.
6. If the monitoring results reveal that an issued report is inappropriate or that procedures were omitted during the performance of the engagement, the Firm determines what further actions are required to comply with relevant professional standards and applicable regulatory and legal requirements. Depending on the specific situation, the Firm may obtain legal advice.

## **MONITORING**

### **(Continued)**

7. At least annually, the Firm prepares and distributes a formal inspection report to all professional personnel. 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. Engagement Partners consider whether any deficiencies noted in the inspector's communication may affect their engagements.
8. In addition to the Firm's annual inspection program, the Firm is subject every three years to a peer review in accordance with the requirements of the AICPA and State Boards of Accountancy. The Quality Control 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 Employee Benefit Plan Audit Quality Center, the engagement letter covering our 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 Center.
  - b. The internal inspection results (including those specific to the Firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection) are made available to the Firm's peer review team.
9. Based on the results of the ongoing monitoring of the QC system, the Firm's inspection report, the annual monitoring communication, and, if appropriate, the results of the Firm's peer review report, finding for further consideration form(s), closing meeting and exit conferences with the peer reviewer, and letter of response from the Quality Control Partner, the CEO and the Quality Control Partner determine any corrective actions that should be pursued to improve, amend, or revise the QC system.
10. The Quality Control Partner is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
11. The Firm 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:
  - a. Establishing channels of communication for complaints and allegations through the Firm's website and communicating that information to employees and clients.
  - b. 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.
  - c. Documenting all complaints and allegations.
12. 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.
13. The Firm retains documentation evidencing the operation of its quality control policies and procedures 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.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

Our review process is outlined below. No set of rules can be established which will cover every situation. These are our minimum requirements and professional judgment should be exercised. For example, an additional review may be necessary to utilize a Firm specialist or because you are too closely involved with an engagement.

**AUDITS/ ATTESTATION**

*General Comments*

1. Audit documentation and resulting reports should be reviewed to the extent considered necessary by someone other than the preparer (regardless of the level of the preparer). Reviewers generally should be at a level of responsibility higher than preparer.
2. All management letters and other reports are subject to the same review procedures as other assurance services reports. This review will be documented on the report travel sheet.
3. Signing off as a reviewer:
  - a. Puts your name and professional reputation on the line.
  - b. Will be the only remaining evidence of your review except initials on selected workpapers.
  - c. Occurs after all significant review points are cleared.
  - d. Consult the area audit function coordinator if you are not comfortable with the end result.
4. For complex tax calculations, prior to final release of an audit report, the related tax returns and the tax provision workpapers should be reviewed by tax personnel. This review is documented by signoff on tax accrual workpapers. Assurance services personnel are responsible for scheduling this review.
5. The ultimate responsibility for an audit opinion rests with the Engagement Partner

*Self-Review*

1. Everyone is responsible for quality, timely, and reasonably priced services.
2. Self-review should ensure proper heading, proper indexing, initialing, and dating of workpapers by the preparer. All cross-references should be rechecked for completeness and logic. All tickmarks should be explained. All questions or differences raised in the working papers should be resolved by a written explanation or a reference to a proposed adjusting journal entry. All appropriate steps to the audit program should be signed off; conclusions should be documented and reviewed for completeness and consistency with the evidence documented in the working papers. All pending matters should be summarized and filed with the appropriate working papers to aid the next reviewer.



**BROWN, EDWARDS & COMPANY, L.L.P.**  
**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ATTESTATION (Continued)**

*In-Charge Review*

1. The in-charge is responsible for the completion and documentation of detailed work.
2. This review covers all associates on the engagement and should be done timely.
3. Workpapers for significant areas should be reviewed, initialed, and dated. Workpapers for other areas should be reviewed, initialed, and dated as professional judgment dictates. Signoff on an audit program indicates that all workpapers within that audit area have been reviewed. This and a sign off on the report travel sheet is the minimum required documentation of this review.
4. Review points should be prepared, cleared, and promptly destroyed or deleted.

*Detailed Review*

1. This review is performed by personnel as outlined at *Appendix 2*.
2. This individual should ensure that:
  - a. Prescribed review procedures have been completed.
  - b. All review points have been satisfactorily cleared and destroyed or deleted.
  - c. The audit opinion is adequately supported by the evidence and conclusions documented in the working papers.
3. This review should include a detail review of the financial statements.
4. This review includes the workpapers of all key audit areas and other workpapers which have not been reviewed to the extent considered necessary.
5. Initialing and dating of workpapers is similar to the in-charge review.
6. Review points should be prepared, cleared, and promptly destroyed or deleted.

*Second Review*

1. This review is performed by personnel as outlined at *Appendix 2*.

**BROWN, EDWARDS & COMPANY, L.L.P.**  
**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ATTESTATION (Continued)**

*Second Review (Continued)*

2. This review should include at a minimum:
  - a. Reading the report for consistency and freedom from obvious errors. The report review should be completed prior to reviewing the working papers.
  - b. Review the general file to see that all review checklists, attorney letters, representation letters, and other important areas have been considered.
  - c. Review files for existence and completeness of minimum required documentation.
  - d. Review those portions of workpaper files for which a question is raised after reviewing the statements (concentrate on key areas). Ensure there is adequate file documentation on key areas.
  - e. Review the management letter (SAS 115) and other required communications (SAS 114) for completeness.
  - f. Ensure all review points are satisfactorily cleared and promptly destroyed or deleted.
  - g. Ensure the opinion is adequately supported by the evidence and conclusions documented in the workpapers.
3. If the detailed review is performed by someone closely involved in the engagement, professional judgment should be exercised to determine any additional review procedures required in the circumstances.
4. Review points should be prepared, cleared, and promptly destroyed or deleted.

*Engagement Quality Control Review*

1. Performing an engagement quality control review includes the following procedures:
  - a. An objective evaluation of significant judgments made and the conclusions reached in formulating the report.
  - b. Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
  - c. Reading the financial statements or other subject matter information and the report and considering whether the report is appropriate.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ATTESTATION (Continued)**

*Engagement Quality Control Review (Continued)*

- d. A review of selected engagement documentation relating to the significant judgments and the conclusions reached.
  - e. A discussion with the Engagement Partner about significant findings and issues.
  - f. 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.
  - g. 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.
2. The Firm prepares appropriate documentation of the EQCR, including documentation that reflects:
- a. The EQCR procedures required by Firm policies have been performed.
  - b. The EQCR was completed before the report was released.
  - c. 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.
3. 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:
- a. The reviewer should be an audit Director or higher and will be determined based upon considerations in Procedure 1 of the Firm's EQCR section under Engagement Performance, as well as circumstances such as a high risk industry or the presence of going-concern considerations.
  - b. The reviewer has sufficient and appropriate experience, technical expertise, and authority for the particular engagement to be reviewed.
  - c. Reviewers maintain appropriate ethical requirements, such as objectivity, due professional care, and independence.
  - d. The reviewer does not participate in the performance of the engagement except in a consulting role. For example, the Engagement Partner may consult the reviewer during the engagement to establish that a judgment made by the Engagement Partner will be acceptable to the reviewer. Both the engagement quality control reviewer and the engagement team are careful to maintain the reviewer's objectivity.
  - e. If the objectivity and/or continued eligibility of the engagement quality control reviewer come into question, the engagement partner will communicate the situation to the quality control partner or the CEO. The engagement quality control reviewer will be replaced if the reviewer's ability to perform and objective review is likely to have been impaired.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ATTESTATION (Continued)**

*Engagement Quality Review (Audits Subject to PCAOB Standards)*

1. Performing an engagement quality review includes the following procedures:
  - a. Discuss the significant judgments made by the engagement team, and the related conclusions reached in forming the overall conclusion on the engagement, with the Engagement Partner and other members of the engagement team and review related documentation.
  - b. Evaluate the significant judgments that relate to engagement planning, including –
    - The consideration of the Firm’s recent engagement experience with the company and risks identified in connection with the Firm’s client acceptance and retention process,
    - The consideration of the company’s business, recent significant activities, and related financial reporting issues and risks, and
    - The judgments made about materiality and the effect of those judgments on the engagement strategy.
  - c. Evaluate the engagement team’s assessment of, and audit responses to –
    - Significant risks identified by the engagement team, including fraud risks, and
    - Other significant risks identified by the engagement quality reviewer through performance of the procedures required by *AS-7, Engagement Quality Review*.
  - d. Evaluate the significant judgments made about (1) the materiality and disposition of corrected and uncorrected identified misstatements and (2) the severity and disposition of identified control deficiencies.
  - e. Review the engagement team’s evaluation of the Firm’s independence in relation to the engagement.
  - f. Review the engagement completion document and confirm with the Engagement Partner that there are no significant unresolved matters, including unresolved matters relating to significant, unusual transactions.
  - g. Review the financial statements, management’s report on internal control, if applicable, and the related engagement report.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ATTESTATION (Continued)**

*Engagement Quality Review (Audits Subject to PCAOB Standards) (Continued)*

- h. Read other information in documents containing the financial statements and evaluate whether the engagement team has taken appropriate action with respect to any material inconsistencies with the financial statements or material misstatements of fact of which the engagement quality reviewer is aware.
  - i. Evaluate whether appropriate consultations have taken place on difficult or contentious matters or significant, unusual transactions. Review the documentation, including conclusions, of such consultations.
  - j. Evaluate whether appropriate matters have been communicated, or identified for communication, to the audit committee, management, and other parties, such as regulatory bodies.
  - k. Evaluate whether, and conclude that, the engagement documentation reviewed by the engagement quality reviewer indicates that the engagement team responded appropriately to significant risks and supports the conclusions reached by the engagement team with respect to the matters reviewed.
2. Documentation of an engagement quality review should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, and others who assisted the reviewer, to comply with the provisions of this standard, including information that identifies:
- a. The engagement quality reviewer, and others who assisted the reviewer.
  - b. The documents reviewed by the engagement quality reviewer, and others who assisted the reviewer.
  - c. The date the engagement quality reviewer provided concurring approval of issuance or, if no concurring approval of issuance was provided, the reasons for not providing the approval.
3. Documentation of an engagement quality review should be included in the engagement documentation.
4. The Firm addresses the appointment of EQR reviewers and the technical qualifications required to perform the role, including the necessary experience and authority. In selecting appropriate EQR reviewers, the following criteria are followed:
- a. The engagement quality reviewer must be a Partner. The engagement quality reviewer may also be an individual from outside the Firm.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**AUDITS/ ATTESTATION (Continued)**

*Engagement Quality Review (Audits Subject to PCAOB Standards) (Continued)*

- b. The engagement quality reviewer must have competence, independence, integrity, and objectivity.
- c. The engagement quality reviewer must possess a similar level of knowledge and competence related to accounting, auditing, and financial reporting as that required of the Partner serving as the Engagement Partner on the engagement under review.
- d. The engagement quality reviewer must be independent of the company, perform the engagement quality review with integrity, and maintain objectivity in performing the review. The reviewer may use assistants in performing the engagement quality review. Personnel assisting the engagement quality reviewer also must be independent, perform the assigned procedures with integrity, and maintain objectivity in performing the review.
- e. To maintain objectivity, the engagement quality reviewer and others who assist the reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team. Caution should be exercised in consultation with the engagement quality reviewer on matters related to the engagement in order to protect objectivity. The Engagement Partner remains responsible for the engagement and its performance, notwithstanding the involvement of the engagement quality reviewer and others who assist the reviewer.

**REVIEWS AND COMPILATIONS**

- 1. Procedures are the same as for an audit except that the reviews are performed by personnel as outlined at *Appendix 2*.
- 2. A limited review consisting of a Director or higher reading the financial report is appropriate for monthly (or other interim) compilations with no disclosures (excluding the first interim statement for a new client). The reviewer's signature on the report travel sheet will serve as evidence of the review.
  - a. The normal review process will be required for: Annual compilations with or without disclosures.
  - b. Monthly (or other interim) compilations with disclosures.
  - c. The first monthly (or other interim) compilation with no disclosures for a new client.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**PREPARATION SERVICE ENGAGEMENTS**

1. A limited review consisting of a Director or higher reading the financial report is appropriate for monthly (or other interim) preparation service engagements with no disclosures (excluding the first interim statement for a new client). The reviewer's signature will serve as evidence of the review.
2. For annual preparation service engagements with or without disclosures, first interim statement for a new client, and monthly (or other interim) preparation service engagements with disclosures, a Director or higher should review engagement documentation and reports to the extent considered necessary. The reviewer's signature will serve as evidence of the review.

Note: See Appendix 2 for additional information on Qualified Reviewers.

**PCAOB INTERIM REVIEWS**

*Engagement Quality Review (PCAOB Standards Only)*

1. In an engagement to review interim financial information, the engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued. To evaluate such judgments and conclusions, the engagement quality reviewer should, to the extent necessary to satisfy the requirements of paragraph 4: (1) hold discussions with the Engagement Partner and other members of the engagement team, and (2) review documentation.
2. In a review of interim financial information, the engagement quality reviewer should:
  - a. Evaluate the significant judgments that relate to engagement planning, including the consideration of:
    - The Firm's recent engagement experience with the company and risks identified in connection with the Firm's client acceptance and retention process.
    - The company's business, recent significant activities, and related financial reporting issues and risks, and
    - The nature of identified risks of material misstatement due to fraud.
  - b. Evaluate the significant judgments made about (1) the materiality and disposition of corrected and uncorrected identified misstatements and (2) any material modifications that should be made to the disclosures about changes in internal control over financial reporting.
  - c. Perform the procedures described in *Engagement Quality Review (Audits Subject to PCAOB Standards)* 1(e) and 1(f) above.
  - d. Review the interim financial information for all periods presented and for the immediately preceding interim period; management's disclosure for the period under review, if any, about changes in internal control over financial reporting; and the related engagement report, if a report is to be issued.

**BROWN, EDWARDS & COMPANY, L.L.P.**

**ENGAGEMENT REVIEW PROCEDURES**

**PCAOB INTERIM REVIEWS (Continued)**

*Engagement Quality Review (PCAOB Standards Only) (Continued)*

- e. Read other information in documents containing interim financial information to be filed with the SEC and evaluate whether the engagement team has taken appropriate action with respect to material inconsistencies with the interim financial information or material misstatements of fact of which the engagement quality reviewer is aware.
  - f. Perform the procedures in *Engagement Quality Review (Audits Subject to PCAOB Standards)* 1(i) and 1(j) above.
3. Documentation of an engagement quality review should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, and others who assisted the reviewer, to comply with the provisions of this standard, including information that identifies:
- a. The engagement quality reviewer, and others who assisted the reviewer.
  - b. The documents reviewed by the engagement quality reviewer, and others who assisted the reviewer.
  - c. The date the engagement quality reviewer provided concurring approval of issuance or, if no concurring approval of issuance was provided, the reasons for not providing the approval.



## BROWN, EDWARDS &amp; COMPANY, L.L.P.

## REVIEWER REQUIREMENTS AND DOCUMENTATION GUIDELINES

| <u>Engagement Type</u>                                      | <u>Detailed or Second Review<br/>Qualified Reviewer</u>  | <u>Documentation</u>         |
|---|--|------------------------------|
| Audit/Attestation   | Either review may be performed by any Audit Partner <sup>3</sup> or <i>Qualified Reviewer</i> . <sup>2</sup> However, one review must be performed by an <i>Audit Partner</i> . <sup>3</sup> Certain employee benefit plan audits and municipal attest engagements may be released without a Partner review. | 2805                         |
| Review  | Either review may be performed by any Partner <sup>1</sup> or <i>Qualified Reviewer</i> . <sup>2</sup> However, one review must be performed by a Partner <sup>1</sup> .   | 2805                         |
| Compilation with or without disclosures                     | Either review may be performed by any Partner or <i>Qualified Reviewer</i> . <sup>2</sup> However, one review must be performed by a Partner <sup>1</sup> or <i>Qualified Reviewer</i> . <sup>2</sup>  | 2805                         |
| Preparation service engagements with or without disclosures | The review may be performed by any Partner, Principal, or Director. However, if the report is prepared in accordance with generally accepted accounting principles, it should be reviewed by someone other than a Tax Partner, Principal, or Director.   | Report Travel Sheet          |
| <b>Engagement Quality Control Review</b>                    |  |                              |
| <b><u>Qualified Reviewer</u></b>                            |  |                              |
| Audit   | Review may be performed by an <i>Audit Partner</i> . <sup>3</sup>  | 2805                         |
| <b>Engagement Quality Review (PCAOB only)</b>               |  |                              |
| <b><u>Qualified Reviewer</u></b>                            |  |                              |
| Audit/Review  | Review may only be performed by an <i>Audit Partner</i> . <sup>3</sup>   | PPC Checklist (PCAOB Audits) |

<sup>1</sup> Excludes Tax Partners<sup>2</sup> Qualified Reviewers are designated on the Qualified Reviewer's Grid<sup>3</sup> Audit Partners are designated on the Audit Partners Listing

**BROWN, EDWARDS & COMPANY, L.L.P.**

**REVIEWER REQUIREMENTS AND DOCUMENTATION GUIDELINES**

Note: It is impossible to develop policies and procedures that will fit all situations and circumstances. Therefore, everyone must use professional judgment to determine their qualifications as a reviewer (industry and niche experience) and the nature and extent of review procedures. Anyone with a concern about an engagement they have been assigned to review should consult with their area Quality Control Partner or the Firm's Quality Control Partner.