PRP Section 10,000
Monitoring Guidance

Notice to Readers

This guide has been developed by the AICPA Peer Review Board to assist firms in achieving the benefits to be derived from an effective monitoring program. It is not intended to, and does not, establish standards for the performance of monitoring procedures. This is not an authoritative document. Additionally, the checklists provided in the appendixes are basic examples and should be tailored for each firm prior to utilizing the materials.

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Introduction

.01 Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)* (QC sec. 10),[1] requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice to provide the firm with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the firm or engagement partners issue reports that are appropriate in the circumstances. Please refer to the Notice to Readers on the Table of Contents for important information related to this guidance.

.02 SQCS No. 8 identifies six elements of quality control and requires that a firm should address each of these elements in establishing its quality control policies and procedures. These six elements include the following:

- Leadership responsibilities for quality within the firm (the tone at the top)
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

The statement recognizes that the nature and extent of a firm's quality control policies and procedures depend on a number of factors, such as its size, and other operating characteristics of the firm.

.03 One of the six elements of quality control is monitoring. This monitoring guide has been developed to assist firms in achieving the benefit to be derived from effective monitoring procedures. It is not intended to, and does not, establish standards for monitoring.

Objective of Monitoring

.04 The definition of *monitoring* as defined by SQCS No. 8 is "a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is designed appropriately and operating effectively." The purpose of monitoring compliance with quality control policies and procedures is to assess, for the system of quality control as a whole, whether the firm is achieving the objectives of its system of quality control through an evaluation of the following:

a. Adherence to professional standards and regulatory and legal requirements

b. Whether the quality control system has been appropriately designed and effectively implemented

c. Whether the firm's quality control policies and procedures have been operating effectively, so that reports that are issued by the firm are appropriate in the circumstances

.05 A firm's monitoring policies should require the performance of monitoring procedures that are sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and regulatory requirements, and the firm's quality control policies and procedures. Monitoring procedures may include the following:

- Review of selected administrative and personnel records pertaining to the quality control elements
- Review of engagement documentation, reports, and clients' financial statements
- Discussions with the firm's personnel
- Determination of any corrective actions to be taken, or improvements to be made in the system, including providing feedback into the firm's policies and procedures relating to education and training
- Communication to appropriate firm personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system
- Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures

[1] The QC section can be found in AICPA *Professional Standards*.

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.06 Monitoring procedures also include an assessment of the following:

a. The appropriateness of the firm's guidance materials and any practice aids

b. New developments in professional standards and regulatory and legal requirements, and how they are reflected in the firm's policies and procedures where appropriate

c. Written confirmation of compliance with policies and procedures on independence

d. The effectiveness of continuing professional development, including training

e. Decisions related to acceptance and continuance of client relationships and specific engagements

f. Firm personnel's understanding of the firm's quality control policies and procedures and implementation thereof

Timing of Monitoring Procedures

.07 Monitoring procedures should be performed on an ongoing basis throughout the year. However, the firm may choose to evaluate compliance with its policies and procedures at a fixed time during the year or through a combination of fixed and ongoing procedures and still effectively comply with the monitoring element of quality control. The requirement for prompt corrective action necessitates that, if compliance testing is performed at one or more fixed points during the year, the point(s) is selected to make sure necessary corrective actions on noted deficiencies can be implemented before the completion of subsequent accounting or auditing engagements.

Determination of Appropriate Personnel to Perform Monitoring Procedures

.08 The performance of the monitoring process is expected to be assigned to qualified individuals. In assigning monitoring tasks, consideration is given to the degree of technical training and proficiency required of the individual in the circumstances. Some administrative procedures can be performed by nonprofessional staff, but only qualified professional personnel who are knowledgeable in accounting and auditing matters are involved in the review of engagements. Review of engagements, therefore, is carried out by persons who have appropriate background and experience.

.09 Individuals assigned to perform monitoring procedures are expected to be objective when performing such tasks. The individual assigned to review an engagement ordinarily is not associated with the performance of that engagement and ordinarily is a partner or management level individual (or a qualified individual under his or her supervision).

.10 It is expected that the assignment of individuals to perform monitoring procedures be made with the same due care that is used in assigning personnel to an accounting or auditing engagement. In making such assignments, the firm is expected to emphasize the important nature of the assignment. The importance placed on monitoring will determine the benefits the firm derives.

.11 The individual is to be supervised by a person or persons with the ability to be objectively critical when necessary and the authority to implement changes to policies and procedures to address the results of the monitoring procedures.

.12 Depending on the size of a firm, the nature of its practice, and other environmental factors, monitoring procedures may be performed by one individual or by a group of individuals. In either case, the primary responsibility for monitoring is assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.

.13 In a small firm with a limited number of partners or qualified individuals, monitoring procedures may have to be performed by some of the same individuals who are responsible for compliance with the firm's quality control policies and procedures. This includes review of engagement working papers, reports, and clients' financial statements by the engagement partner or other qualified personnel after the report release date. To effectively monitor one's own compliance with the firm's policies and procedures, it is necessary that an individual be able to critically review his or her own performance, assess his or her own strengths and weaknesses, and maintain an attitude of continual improvement. Changes in the condition or environment of the firm (such as obtaining a client in an industry not previously serviced or a significant change in the size of the firm) may indicate the need to have quality control policies and procedures monitored by another qualified individual.

.14 Having an individual inspecting his or her own compliance with a system of quality control may be inherently less effective than having such compliance inspected by another qualified individual. When one individual inspects his or her own compliance, the firm may have a higher risk that noncompliance with policies and procedures will not be detected. Accordingly, a firm with a limited number of persons with sufficient and appropriate experience and authority in the firm may find it beneficial to engage a qualified external person or another firm to perform engagement inspections and other monitoring procedures. Because using that individual may result in the individual not being independent to also perform the firm's peer review, it is recommended that the firm consult peer review independence guidance before engaging the external person or firm. Some small firms find that performing monitoring procedures on each other, on a reciprocal basis, is cost effective. Unlike peer reviews, monitoring procedures may be performed on a reciprocal basis because independence is not an issue.

.15 If a firm decides to have an external person or firm perform some or all of its monitoring procedures, it is expected to consider the qualifications discussed previously in making the selection of the individual(s). In such circumstances, a partner of the firm may be given responsibility for coordinating the monitoring efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

.16 Preissuance engagement review procedures performed by the audit partner and others on the audit team under professional standards, such as Statement on Auditing Standards No. 108, *Planning and Supervision*, do not qualify for monitoring purposes.

How to Monitor

Evaluate Relevance and Adequacy of Firm's Quality Control Policies and Procedures

.17 Paragraph .52 of QC section 10 requires the firm to "establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively." This can be accomplished by assigning a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to be responsible for the following:

a. Assuring the firm's policies and procedures and its methodology for its accounting and auditing practice remain relevant and adequate. The evaluation of the firm's policies and procedures may be performed on a continual, ongoing basis. Therefore, the occurrence of an event such as a change in professional standards or a change in the nature of the firm's practice would trigger an evaluation by the responsible individual(s) of whether the firm's policies and procedures need to be revised. Factors to consider include, but are not limited to, the following:

i. Mergers and divestitures of portions of the practice or alignment with a non-CPA owned firm

ii. Acquisition or loss of personnel with special skills

iii. Changes in professional standards or other regulatory or legal requirements applicable to the firm's practice

iv. Results of annual inspections, peer reviews, or other quality review processes

v. Review of litigation and regulatory enforcement actions against the firm and others

vi. Impact that changes in technology may have on clients' methods of doing business

vii. Changes in clients' industries that affect their operations

viii. Changes in applicable AICPA membership requirements, including requirements of the quality centers

b. Determining whether personnel have been appropriately informed of their responsibilities for maintaining the firm's standards of quality in performing their duties.

c. Identifying the need to revise policies and procedures related to the other elements of quality control because they are ineffective or inappropriately designed due to changes in professional standards or the nature of the firm's practice.

d. Identifying the need to improve compliance with firm policies and procedures that are related to the other elements of quality control.

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Evaluate Appropriateness of Firm's Guidance Materials and Practice Aids

.18 As noted in paragraph .A65 of QC section 10, monitoring procedures include assessment, on an ongoing basis, of the appropriateness of the firm's technical guidance materials and any practice aids (such as audit programs, forms, and checklists). This can be accomplished by assigning a partner or other persons with sufficient and appropriate experience and authority in the firm to be responsible for the following:

a. Reviewing and evaluating the appropriateness of the firm's guidance materials and practice aids (such as audit programs, forms, and checklists) based on the issuance of new professional pronouncements. This means when new professional pronouncements are issued, the firm determines whether its materials and aids need to be revised. Whether the firm internally develops its materials and aids, or if the firm purchases its technical guidance materials and practice aids from an outside vendor, it appropriately updates and tailors the materials to the nature of its accounting and auditing practice and system of quality control. In addition, the firm may obtain from third party providers a copy of the peer review report on the materials and aids.

b. Providing guidance to all professional personnel regarding new professional standards, new regulatory and legal requirements, and related changes to the firm's practice aids. Although this guidance can be provided through written communications for a small firm, face-to-face discussions at staff meetings may be the most effective means because such meetings allow for immediate clarification and resolution of any questions.

Evaluate Effectiveness of Firm's Professional Development Activities

.19 As noted in paragraph .A65 of QC section 10, monitoring procedures include assessment, on an ongoing basis, of the effectiveness of the firm's professional development programs. This can be accomplished by assigning a partner or other persons with sufficient and appropriate experience and authority in the firm to be responsible for the following:

a. Reviewing the firm's professional development policies and procedures to determine whether they are appropriate, effective, and meet the needs of the firm given the nature of its practice.

b. Reviewing the firm's continuing professional education (CPE) records for its personnel to determine their compliance with the CPE requirements of the AICPA and regulatory bodies. For example, if the firm performs governmental audits, the firm would make sure engagement personnel meet the Yellow Book CPE requirements before the audits are performed.

c. Soliciting information from the firm's personnel regarding the effectiveness of the training programs they have attended, regardless of whether such programs were conducted internal to the firm or external to the firm, or by self-study, classroom study, or participation on web-based courses. For a small firm, face-to-face discussions at staff meetings may be the most efficient way to obtain such feedback.

d. Considering the results of the firm's engagement reviews in connection with the effectiveness of the firm's professional development program.

e. Ascertaining whether inquiries received by individuals consulted within the firm indicate the need for additional CPE programs.

Evaluate Firm's Compliance With Its Quality Control Policies and Procedures

.20 As noted in paragraph .A63 of QC section 10, monitoring procedures include assessment of the firm's compliance with all applicable professional standards and regulatory requirements and its quality control policies and procedures. This can be accomplished by assigning a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to be responsible for supervising the performance of procedures at the broad functional element level and engagement level to determine whether the firm complies with these items, including those related to acceptance and continuance and independence. The firm may assess, based on the nature of its practice and the composition of its personnel, how best to evaluate compliance with its quality control policies and procedures and design its system accordingly. Monitoring procedures at the broad functional element may include the following:

a. Review of selected administrative and personnel records pertaining to the quality controls elements focusing on policies and procedures related to human resources

b. Discussions with the firm's personnel to emphasize tone at the top

Appendix C contains a checklist for reviewing the broad functional elements.

Several functional elements are reviewed in conjunction with evaluating the firm's compliance with professional standards at the engagement level:

a. Documentation regarding consultation on independence, integrity, and objectivity matters and acceptance and continuance decisions

b. Resolution of matters reported by professional personnel on independence, integrity, and objectivity circularization forms to determine that matters have been appropriately considered and resolved

c. Other consultation on accounting and auditing matters

.21 Two methods are primarily available for evaluating the firm's compliance with its quality control policies and procedures and with professional standards at the engagement level:

a. Inspection procedures

b. Postissuance review of engagement documentation, reports, and clients' financial statements for selected engagements after the report release date

.22 Inspection is a retrospective evaluation at a fixed point in time of the adequacy of the firm's quality control policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them. Although monitoring procedures are meant to be ongoing, they may include inspection procedures performed at a fixed point in time. The quality control standards do not require that inspection procedures be performed if other types of effective[2] monitoring procedures exist. As a practical matter, however, most firms will need to perform some type of inspection procedures. Paragraph .A69 of QC section 10 states that inspection procedures with respect to the engagement performance element of a quality control system are "particularly appropriate in a firm with more than a limited number of management-level individuals responsible for the conduct of its accounting and auditing practice." A firm that contemplates not performing an inspection can discuss the matter with the AICPA Technical Hotline, or other appropriate resources, to determine in advance that its monitoring procedures will be appropriate.

.23 Postissuance reviews are performed on an ongoing basis but are performed after the report release date. Monitoring is a broad concept, whereas inspection and postissuance review are specific procedures.

.24 Engagement quality control review (EQCR) is part of engagement performance and is not part of monitoring. EQCR procedures should include an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. EQCR procedures, like other engagement performance procedures, may contribute to monitoring when deficiencies identified through the performance of these procedures are included in the summary of deficiencies noted for monitoring purposes.

.25 Appendixes A and B contain checklists for coordinating, respectively, an inspection program and a postissuance review program.

.26 When determining whether to perform compliance testing at a fixed time(s) during the year covering a specified period(s) of time (inspection), as part of ongoing quality control procedures (postissuance review), or a combination thereof, the firm may consider, among other items, the following risk factors:

a. The size of the firm.

b. The number and geographical location of offices.

c. The results of previous monitoring procedures.

d. The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them).

e. The nature and complexity of the firm's practice and organization.

f. The risks associated with the firm's clients and specific engagements.

g. The results of quality control reviews performed throughout the year and the type and complexity of engagements reviewed.

[2] Effective is defined as covering not only the engagement's compliance with standards, but also the evaluation of the relevance and adequacy of the firm's policies and procedures, appropriateness of its guidance materials and practice aids, effectiveness of professional development activities, and compliance with the firm's policies and procedures. This would also clarify why firms need to perform some types of inspection procedures.

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.27 SQCS No. 8 allows for either periodic inspection of engagements at a fixed point in time or ongoing reviews of engagements through postissuance review. Either method or any combination thereof, if planned and implemented correctly, can accomplish the objective of evaluating compliance with the firm's quality control policies and procedures at the engagement level. When deciding how to test compliance at the engagement level, the firm may consider time pressures such as report due dates and time budgets.

.28 Regardless of how a firm tests engagement compliance, the scope of its engagement review is planned at least annually. The plan for ongoing review of engagements is reevaluated throughout the year as circumstances necessitate. The planning includes a preliminary selection of engagements for review; that selection is reevaluated and adjusted throughout the year as circumstances change. Engagement selection is based on a risk assessment as discussed subsequently.

.29 Effective selection of engagements entails using a risk based approach, taking into account the number and types of engagements and partner coverage. Effective selection includes review of engagements that represent a reasonable cross-section of the firm's accounting and auditing practice using criteria, which could include, but is not limited to, the following:

a. Engagements required to be selected during peer review (under *Government Auditing Standards*, Employee Retirement Income Security Act [ERISA], Federal Deposit Insurance Corporation Improvement Act financial institutions [FDICIA], broker-dealers and examinations of SOC 1® and SOC 2® engagements)

b. Specialized industries with emphasis given to high risk engagements

c. Initial engagements

d. Level of service performed (audit, agreed-upon procedures under auditing standards, engagements performed under SSARS, and engagements performed under the attest standards)

e. An appropriate cross section of the firm's auditing and accounting partners, taking into account partners who have had negative results in the prior reviews

f. SEC registrants[3]

g. Engagements from a merged-in practice

h. Engagements with areas that have been identified as findings in other reviews, (that is, PCAOB, peer review, or prior internal inspection)

i. Partners, who have specialties other than accounting and auditing, but still service accounting and auditing clients

.30 A postissuance engagement review, except as discussed in subsequent paragraph .31, may be considered a part of the firm's monitoring procedures provided that the individual performing or supervising the review is not a member of the engagement team on the particular engagement he or she reviews. Such a postissuance review may constitute an inspection procedure provided the following criteria are met:

a. The review is sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and the firm's quality control policies and procedures.

b. Engagement deficiencies that may indicate the need to improve compliance with or modify the firm's quality control policies and procedures are periodically summarized, documented, and communicated to the firm's management personnel having the responsibility and authority to make changes in those policies and procedures.

c. The firm's management personnel consider on a timely basis the systemic causes of the engagement deficiencies that indicate improvements are needed and determine appropriate actions to be taken.

d. The firm implements on a timely basis such planned actions, communicates changes to personnel who might be affected, and follows up to determine that the planned actions were taken.

.31 In a small firm with a limited number of qualified management level individuals, a postissuance review of engagement documentation, reports, and clients' financial statements by the person with final responsibility for the engagement may constitute an inspection procedure provided the four criteria listed in paragraph .30*a–d* are met.

[3] The firm's monitoring procedures should cover SEC registrants; however, the firm's engagements that are subject to inspection by the PCAOB will not be included in the scope of the firm's peer review.

.32 Although the firm cannot substitute its peer review for its monitoring procedures, it may substitute its peer review for the inspection of some or all engagements for the period covered by the peer review, provided its policies and procedures require the performance of inspection procedures to evaluate compliance with its quality control policies and procedures and permits the substitution. In such a case, the firm does not need to review any engagements during the year of its peer review. The firm, however, still needs to monitor its system of quality control by evaluating the relevance and adequacy of its quality control policies and procedures, appropriateness of its guidance materials and practice aids, and compliance with professional development activities.

.33 Further, the peer reviewer evaluates the firm's inspection procedures because inspection has been designed as part of the firm's monitoring process. Because no inspection procedures were performed in the year of the peer review for the peer reviewer to evaluate, the reviewer will have to review the inspection procedures performed during the two years between peer reviews.

.34 If the firm performs inspection procedures during the year of its peer review, it may want to consider the scope of its inspection procedures in relationship to the scope of its peer review. In such a situation, the firm may want to tailor the scope of its inspection to complement the scope of its peer review rather than duplicate it.

.35 If the firm performs inspection procedures during the year of its peer review and wants its peer reviewer to use those inspection procedures to reduce the number of offices visited or engagements reviewed, or the extent of the functional areas reviewed on the peer review, then the reviewer will have to test the effectiveness of the current year's inspection procedures. This testing entails the peer reviewer reperforming the review of a sample of engagements previously inspected by the firm.

.36 When a firm performs inspection procedures to evaluate compliance with its quality control policies and procedures, its system of quality control is tested at the broad functional element level through review of administrative files and at the individual engagement level through review of selected accounting and auditing engagements. Any deficiencies noted at the two levels are combined at the end of the inspection and analyzed for systemic causes. Likewise, when a firm uses postissuance reviews to evaluate compliance with its quality control policies and procedures, the firm tests its system at the broad functional element level as well as at the engagement level, and the deficiencies noted at the two levels are combined and analyzed for systemic trends.

.37 The firm, as part of its monitoring procedures, may want to test compliance with the membership requirements of the various organizations to which it or its members belong — the AICPA, Audit Quality Centers, and state CPA societies — even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm's quality control policies and procedures and are tested during other phases of monitoring. For example, compliance with the CPE requirements of the AICPA and state boards of accountancy will be tested when the firm evaluates effectiveness of professional development activities. Additionally, the firm verifies compliance with licensing requirements of state boards of accountancy, within all states in which the firm operates. Firms may need to obtain temporary licenses when performing engagements in which they do not have an office. Compliance with the membership requirements is not covered as part of a peer review; accordingly, the firm would be responsible for ensuring this compliance during the year of the peer review.

.38 If the firm acquires an accounting and auditing practice through a merger or acquisition, the monitoring of that merged or acquired practice begins immediately. In other words, if the firm primarily monitors its accounting and auditing practice through annual inspection procedures, then the firm would not wait until the performance of the next annual inspection before it begins to monitor the merged or acquired accounting and auditing practice. This monitoring would cover merged or acquired personnel as well as engagements. One way to accomplish the timely monitoring of a merged or acquired accounting and auditing practice is to subject all engagements of the merged-in practice to EQCR or other preissuance review. EQCR and other preissuance reviews will permit the identification of issues before issuance and contribute to monitoring of the quality control system when identified deficiencies are included in the summary of deficiencies noted for monitoring purposes. In addition, the firm may implement procedures to ensure personnel from the merger or acquisition are trained in the firm's policies and procedures for accounting and auditing engagements and, when necessary, professional standards.

Summarize Monitoring Results

.39 All of the deficiencies noted during monitoring procedures, not just those noted through engagement review, should be periodically summarized in a manner that will enable the firm to determine what actions, if any, are necessary to prevent the recurrence of the deficiencies in the future. Firms can develop a form to summarize the deficiencies noted

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during the monitoring. Other firms scan the deficiencies and summarize them informally; this is common when the number of engagements reviewed is small or the number of deficiencies is minimal.

.40 Each deficiency may be considered in conjunction with the other deficiencies noted during the monitoring procedures for implications to the firm's system of quality control as a whole. For example, on an engagement, a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is considered in the subsequent financial statements. However, if the deficiency is noted on several engagements, corrective action may also be needed on a firm-wide basis to prevent the recurrence of the deficiencies.

.41 When summarizing the monitoring deficiencies, they may be organized, to the extent possible, according to the systemic cause(s) to assist in the determination of appropriate corrective action(s).

Prepare Written Summary Report of Monitoring Results

.42 After summarization of the deficiencies noted during the monitoring procedures, a written summary report of the deficiencies noted is prepared and submitted to the appropriate partner(s) of the firm. Appendix D contains a sample summary report for documenting the firm's monitoring procedures.

Determine Necessary Corrective Actions

.43 After preparation of the summary report, the appropriate partner(s) of the firm reviews the written report and evaluates what corrective actions, if any, are to be taken in connection with the monitoring results to prevent the recurrence of the deficiencies in the future. A record is to be maintained of the corrective actions and improvements planned by the firm to address the deficiencies noted during monitoring, and appropriate personnel are assigned the responsibility of implementing the corrective actions. Corrective actions include the following:

a. Additional staff training in specific areas or industries

b. Changes in the firm's quality control policies and procedures

c. Updates or additions to technical manuals and practice aids

d. More careful monitoring of compliance with policies and procedures

e. Appropriate corrective actions on specific engagement deficiencies

f. Changes in staff assignments

Communicate Monitoring Results

.44 At least annually, and after the necessary corrective actions have been decided, the monitoring results and the changes being made as a consequence of those results, are communicated orally or in writing to appropriate professional personnel of the firm. Information communicated should include the following:

a. A description of the monitoring procedures performed

b. The conclusions drawn from the monitoring procedures

c. Where relevant, a description of systemic, repetitive, or other significant deficiencies, and of the actions taken to resolve or amend those deficiencies

.45 The reporting of identified deficiencies to individuals other than the relevant engagement partner need not include an identification of the specific engagements concerned, unless such identification is necessary for the proper discharge of the responsibilities of the individuals other than the engagement partner.

Follow-Up on Planned Corrective Actions

.46 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to effective monitoring. Within a reasonable period of time after the firm is scheduled to take the planned corrective actions, steps are taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

Complaints and Allegations

.47 The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with

a. complaints and allegations that the work performed by the firm fails to comply with professional standards and legal and regulatory requirements; and

b. allegations of noncompliance with the firm's system of quality control.

.48 If, during the investigations into complaints and allegations, deficiencies in the design or operation of the firm's quality control policies and procedures, or noncompliance with the firm's system of quality control by an individual or individuals are identified, the firm should take appropriate action.

.49 Policies and procedures established for the investigations of complaints and allegations may include, for example, that the partner supervising the investigation

a. has sufficient and appropriate experience

b. has authority within the firm, and

c. is otherwise not involved in the engagements.

.50 The partner supervising the investigation may involve legal counsel as necessary. Small firms and sole practitioners may use the service of a qualified external person or another firm to carry out the investigation.

.51 The firm should establish policies and procedures requiring documentation of complaints and allegations and the responses to them.

Documentation of Monitoring

.52 Paragraph .A79 of QC section 10 indicates that appropriate documentation relating to monitoring includes, for example, the following:

a. Monitoring procedures, including the procedure for selecting completed engagements to be inspected

b. A record of the evaluation of

i. adherence to professional standards and legal and regulatory requirements

ii. whether the quality control system has been appropriately designed and effectively implemented

iii. whether the firm's quality control policies and procedures have been operating effectively, so that reports that are issued by the firm are appropriate in the circumstances

c. Identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary

.53 The firm determines the period that detailed monitoring documentation is retained. It is recommended that detailed monitoring documentation be discarded after the peer reviewer has had an opportunity to review the documentation. The retention of this documentation until after the peer review is especially important if the firm intends to use inspection procedures performed in the year of its peer review to reduce the scope of its peer review.

.54 The summary monitoring report will be retained and available to the peer reviewer for each year since the prior peer review. Once the peer reviewer has reviewed the summary monitoring reports and all applicable laws and regulations have been complied with, the reports can be discarded.

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Appendixes

Appendix A—Checklist for Coordinating an Inspection Program

Period Covered _____

	Initial	Date
1. Determine who will coordinate the inspection program for the firm.	_____	_____
2. Determine who will perform the inspection.	_____	_____
3. Establish the approach (that is, comprehensiveness of review, and so forth) and timetable for performing the inspection procedures.	_____	_____
4. Determine forms and checklists to be used during the inspection and the extent of documentation required.	_____	_____
5. Decide how long to retain detail monitoring documentation.	_____	_____
6. Prepare a risk assessment of the firm.	_____	_____
7. In assessing the risk of the firm, the engagement quality control review selection threshold for engagements is to be considered.	_____	_____
8. Based on the risk assessment, make a selection of engagements for review and reevaluate that selection throughout the process.	_____	_____
9. Review other files for compliance with the firm's quality control policies and procedures (appendix C).	_____	_____
10. Review the documentation of investigations related to complaints and allegations to determine that they were handed to an outside party, and results of the investigation were appropriately handled.	_____	_____
11. Review the selected engagements.	_____	_____
12. Summarize the inspection findings and determine what corrective actions are necessary. Determine if any correlation exists between engagement and functional element review findings.	_____	_____
13. Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions. (appendix D).	_____	_____
14. Review the recommended corrective actions and reach final conclusions on the actions to be taken.	_____	_____
15. Communicate the inspection findings and the planned corrective actions to the appropriate members of the firm.	_____	_____
16. Follow up on planned corrective actions to determine whether the actions were taken as planned and whether they achieved the objective(s) for which they were planned.	_____	_____

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Appendix B—Checklist for Coordinating a Postissuance Review Program

Period Covered _____

	Initial	Date
1. Determine who will coordinate the postissuance review program for the firm.	_____	_____
2. Determine who will perform postissuance reviews and designate alternates. (Ideally, the individual would not be directly associated with the performance of the particular engagement he or she reviews.)	_____	_____
3. Establish the approach for performing postissuance reviews (that is, comprehensiveness of review and so forth) and the time period for summarizing findings (that is, monthly, quarterly, and so forth). (The comprehensiveness of the review must be similar to that performed on an inspection or peer review.)	_____	_____
4. Determine forms and checklists to be used during the postissuance engagement reviews and the extent of documentation required.	_____	_____
5. Review the documentation of investigations related to complaints and allegations to determine that they were handed to an outside party, and results of the investigation were appropriately handled.	_____	_____
6. Decide how long to retain detail monitoring documentation.	_____	_____
7. Perform a risk assessment of the firm.	_____	_____
8. In assessing the risk of the firm, consider the engagement quality control review selection threshold for engagements to be reviewed.	_____	_____
9. Based on the risk assessment, make a selection at the beginning of the monitoring year of engagements to be postissuance reviewed and reevaluate that selection throughout the year as circumstances dictate.	_____	_____
10. Review the selected engagements postissuance.	_____	_____
11. After a postissuance engagement review, communicate any specific findings on that particular engagement to the appropriate professional staff that performed the engagement.	_____	_____
12. Review other files for compliance with the firm's quality control policies and procedures (appendix C). (Steps 9–14 should be performed for each time period established in the preceding step 3.)	_____	_____
13. Summarize the engagement and functional element review findings and determine what corrective actions necessary. Determine if any correlation exists between engagement and functional element review findings.	_____	_____
14. Prepare a summary monitoring report covering the scope of the engagement and functional element reviews, the review findings, and the recommended corrective actions (appendix D).	_____	_____

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	Initial	Date
15. Review the recommended corrective actions and reach final conclusions on the actions to be taken.	_____	_____
16. Communicate the summarized monitoring findings and the planned corrective actions to the appropriate members of the firm.	_____	_____
17. Follow up on planned corrective actions to determine whether the actions were taken as planned and whether they achieved the objective(s) for which they were planned.	_____	_____

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Appendix C—Checklist for Review of Functional Elements

Period Covered _____

	Findings, Including Extent of Testing	*Done By*
Leadership Responsibilities for Quality Within the Firm		
1. Are the firm's quality control policies and procedures documented and communicated to personnel as required by QC section 10, *A Firm's System of Quality Control*?	_____	____
2. Does firm leadership assume ultimate responsibility for the firm's quality control (QC) system and exhibit a willingness to devote sufficient resources to developing and supporting the QC system, and assign adequate authority to the designated quality control director responsible for administering the QC system?	_____	____
3. Are the firm's quality control policies and procedures designed in accordance with QC section 10 paragraph .A5, such that	_____	____
a. management responsibilities are assigned such that commercial considerations do not override the quality of work performed?	_____	____
b. performance evaluations, compensation, and advancement (including incentive systems) with regard to its personnel, demonstrate the firm's overarching commitment to quality?	_____	____
c. provision of sufficient and appropriate resources are devoted for the development, communication, and support of its quality control policies and procedures?	_____	____
d. quality affects engagement partner compensation?	_____	____
Relevant Ethical Requirements		
1. Select a sample of situations in which independence, integrity, and objectivity questions arose during the period, and consider whether the resolution of such questions appears appropriate.	_____	____
2. Select a sample of professional personnel and review the written representations obtained by the firm regarding independence, integrity, and objectivity, if required by firm policy. Determine through review of each professional's written representation near the time of initial employment, and at least annually thereafter, that he or she (*a*) has read the firm's independence policies, (*b*) understands their applicability to his or her activities and those of his or her spouse and close relatives, and (*c*) has complied with the requirements of the firm's independence policies since the prior certification.	_____	____

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	Findings, Including Extent of Testing	Done By
3. Interview selected staff, review appropriate documentation, and determine whether the firm has advised all professional personnel on a timely basis about entities to which the independence, integrity, and objectivity rules apply, and that professional personnel are familiar with the firm's independence, integrity, and objectivity policies and procedures.	_____	____
4. For the engagements selected, determine whether	_____	____
a. all fees (both billed and unbilled) for services rendered more than one year prior to the date of the firm's report were paid.	_____	____
b. nonattest services were provided to attest clients, and for such nonattest service engagements, determine whether the requirements of the interpretations of the "Nonattest Services" subtopic (ET sec. 1.295)[4] under the "Independence Rule" (ET sec. 1.200.001) were followed.	_____	____
5. Identify engagements where other firms were engaged to perform segments of the engagements. For all (or selected) engagements identified, determine whether the firm obtained timely and appropriate assurance of the independence of the other firms.	_____	____
6. For all or selected clients identified as clients with which the firm was not independent, determine by reviewing the accountant's reports if the services rendered complied with professional standards.	_____	____
7. Review the firm's library materials to determine if it includes copies of the relevant ethical requirements of the state board of accountancy, AICPA, and applicable regulators, such as the Government Accountability Office, Department of Labor, and so forth.	_____	____
Engagement Performance		
1. Based on the review of engagements, determine whether		
a. the firm's procedures for planning, performance, supervision, review, and documentation are being followed.	_____	____
b. the programs, checklists, practice aids, and other materials required by firm procedures are being used.	_____	____
c. the financial statements and accountants' reports conform to professional presentation, disclosure, and reporting standards.	_____	____
2. If the firm uses quality control materials (for example, an audit and accounting manual or standardized forms, checklists, or practice aids) purchased from a third party, perform the following procedures:	_____	____
a. Obtain and review the most recent peer review report on the review of the suitability of the design of those materials. If the third party's quality control materials have not been peer reviewed, evaluate whether the materials are current, cover all appropriate professional standards and regulatory and legal requirements, and are practical for the firm.	_____	____

[4] All ET sections can be found in AICPA *Professional Standards*.

	Findings, Including Extent of Testing	Done By
3. Inspect the firm's library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm's specialties and are updated on a timely basis.	_____	____
4. Select a sample of situations in which consultations took place during the period and determine through inquiry or review of appropriate files whether all relevant facts and circumstances were provided to the party consulted, the advice given appears reasonable, and the actions taken were consistent with professional standards and firm policies.	_____	____
5. Select a sample of situations in which there was a difference of opinion and determine that it was appropriately resolved through consultation or other manner.	_____	____
6. Were engagement quality control reviews performed on the engagements meeting the established criteria? Additionally, were the appropriate checklists completed?	_____	____
7. If significant matters were noted during the engagement quality control reviews, were they resolved before the reports were released?	_____	____
8. Does the firm have the appropriate procedures in place to allow for the appropriate document retention?	_____	____
Human Resources		
1. Select a sample of new hires and determine, through review of their personnel files, whether		
a. the background information and other documentation required by firm policy were obtained.	_____	____
b. the individuals possessed the desired attributes, achievements, and experience required by the firm and, if not, why an exception was made.	_____	____
2. Interview selected staff and determine whether they believe they had the technical training and proficiency required to perform the assignments received.	_____	____
3. If any in-house continuing professional education (CPE) courses were taught during the period under inspection, determine that the following documentation has been obtained:		
a. In-house CPE notification form that communicated date(s) and length of the program, location, learning objectives, requisite knowledge and experience, description of the program, program level, advance preparation, format, CPE hours, and relevant administrative policies	_____	____
b. Qualifications of instructor, program developer, and program reviewer	_____	____
c. Participant's attendance record and course outline	_____	____

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	Findings, Including Extent of Testing	Done By
d. Summary of participant's evaluation forms	_____	____
e. Instructor's evaluation form.	_____	____
4. Select a sample of professional personnel and determine through review of their personnel files whether they have been evaluated and promoted in accordance with the firm's policies and procedures.	_____	____
5. From the engagements selected for review, determine if the practitioners in charge of those accounting, auditing, or attestation engagement possessed the knowledge, skills, and abilities (competencies), as determined by the firm, to allow them to fulfill their responsibilities related to those engagements.	_____	____
Acceptance and Continuance of Clients and Engagements		
1. Select a sample of acceptance and continuance decisions and determine through review of appropriate documentation whether the firm is complying with its policies and procedures and with the requirements of professional standards, including communication with prior auditors, an evaluation of management's integrity, and a determination of whether the firm had the required knowledge and expertise to perform the engagement.	_____	____
2. For the engagements selected, determine whether the firm obtained an understanding (either oral or written) of the services to be performed.	_____	____
3. If the firm considered withdrawing from an engagement, review the related working papers to determine whether the firm followed its QC policy and procedures on withdrawal and adequately documented the significant issues, consultations, conclusions reached, and the basis for the conclusions relating to the withdrawal.	_____	____
Monitoring		
1. Determine whether the results of the prior period's monitoring procedures were appropriately summarized and communicated, and that appropriate corrective actions were taken, including effective follow-up.	_____	____
2. Review the firm's quality control policies and procedures and determine whether they are relevant and adequate.	_____	____
3. Review the firm's guidance materials and any practice aids and determine whether they are up-to-date.	_____	____
4. Select a sample of professional personnel and determine, through review of their CPE records, whether they		
a. participated in CPE related to their accounting and auditing assignments, including specialized industries.	_____	____

	Findings, Including Extent of Testing	*Done By*
b. complied with the firm's CPE plan and the CPE requirements of the		
i. board of accountancy.	_____	____
ii. AICPA.	_____	____
iii. state CPA society.	_____	____
iv. *Government Auditing Standards*—"the Yellow Book" (if applicable).	_____	____
v. audit quality centers, if applicable.	_____	____
c. took appropriate action to correct situations where they were not in compliance with the CPE requirements of the AICPA and regulatory bodies.	_____	____
5. Interview selected staff and determine whether they believe the training programs they participated in were effective.	_____	____
6. Review the documentation related to investigations of complaints and allegations, if any, to determine whether they were sufficiently investigated, responded to, and documented.	_____	____

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Appendix D—Sample Summary Monitoring Report

Monitoring Period: From _____ to _____

Name of Reviewer(s):

_____

Timing:

_____

Briefly describe the monitoring procedures used by the firm. _____

_____

_____

_____

_____

_____

_____

Attached:

Checklist for Coordinating an Inspection Program	Yes ☐	No ☐	N/A ☐
Checklist for Coordinating a Postissuance Review Program	Yes ☐	No ☐	N/A ☐
Checklist for Review of Functional Areas	Yes ☐	No ☐	N/A ☐

Provide a risk assessment of the firm.

_____

_____

_____

_____

_____

_____

Scope of engagements reviewed based on risk assessment:

	Firm Totals		*Engs. Reviewed*	
	Hrs.	*No. of Engs.*	*Hrs.*	*No. of Engs.*
Statement on Auditing Standards—				
SEC				
Employee Retirement Income Security Act:				
Defined Contribution Plans (excluding 403(b) plans)				
Defined Contribution Plans (403(b) plans only)				
Defined Benefit Plans				
Health and Welfare Plans				
Employee Stock Option Plans				
Carrying Broker Dealers				
Non-carrying Broker Dealers				
Other Audits Under Statements on Auditing Standards				
Audits Under PCAOB Standards, not covered by PCAOB permanent inspection program				
Other Entities, subject to SEC independent rules				
Federal Deposit Insurance Corporation Improvement Act				
Engagements Subject to *Government Auditing Standards* (GAS):				
Single Audit Engagements				
All Others Subject to GAS				
Attestation Engagements (Examination, Review, or Agreed- upon Procedures under GAS)				
Performance Audits				
Statement on Standards for Accounting and Review Services (SSARS) —				
Reviews				
Compilations With Disclosures				
Compilations That Omit Disclosures				
Preparation Engagements With Disclosures				
Preparation Engagements That Omit Disclosures				
Statement on Standards for Attestation Engagements—				
Examination of SOC 1® Reports				
Examination of SOC 2® Reports				
Examination of SOC 3® Reports				
Examinations				
Reviews				
Agreed-Upon Procedures				
Attest Engagements Under PCAOB Standards, not covered by PCAOB permanent inspection program				
Total				
Percentage of A&A Practice Reviewed		0 %		0%

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Did the monitoring procedures indicate that the firm's system of quality control is insufficient to provide reasonable assurance that it complies with professional standards and regulatory and legal requirements or disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional procedures to provide a basis for the report issued? Yes ☐ No ☐

If yes, describe the situation and the action(s) taken by the firm.

_____

_____

_____

_____

_____

The monitoring findings and the recommendations regarding actions taken for improvements in the firm are attached.

Monitoring Coordinator Signature _____ Date _____

Approved _____ Date _____

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Examples

Example 1—Implementation of an Inspection Program

DESCRIPTION OF THE FIRM

Size of Firm	Sole practitioner with one part-time professional staff.
Background	The sole practitioner has 25 years of public accounting experience, of which the last 10 have been spent as a sole practitioner.
Nature of Practice	2 Audits 250 hours 2 Reviews 75 hours 13 Compilations 100 hours Tax and management advisory service engagements make up the remainder of the practice.
Industry	None. However, the firm does have clients in the following areas: manufacturing, construction, and not-for-profit organizations. The firm performs no audits of SEC or governmental clients.
Environment	• The sole practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area. He takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course. • The sole practitioner takes a majority of his courses in a self-study format. • The sole practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues.

MONITORING PROCEDURES

Procedures	The sole practitioner evaluates compliance with his quality control policies and procedures by performing an annual inspection.
Timing	All inspection procedures are performed at one time during the year in July. Because the sole practitioner's practice consists primarily of tax, he believes performing a detailed review of engagements at one time during the year will allow him to concentrate more intensely on accounting and auditing matters. Additionally, this timing will allow the sole practitioner to implement any changes to the system before subsequent engagements are completed because all of his engagements are December 31 year-ends. Performing postissuance reviews throughout the year would not allow this concentration. The sole practitioner believes he can perform the inspection procedures because the auditing and accounting practice is not complex. However, he recognizes that someone from outside the firm could be used to perform the inspection (perhaps on a reciprocal basis) if so desired.
Documentation	The sole practitioner documents monitoring by completing the following: • Appendix C of this document when testing the broad functional elements of quality control. • The engagement review checklists used in performing peer reviews when reviewing the selected accounting and auditing engagements. The sole practitioner believes these checklists act as good "memory joggers" for accounting and auditing issues that he encounters on an infrequent basis.
Summarization	After the sample of engagements have been reviewed and the applicable broad functional elements of quality control tested, the deficiencies are summarized, and the sole practitioner evaluates what actions, if any, are necessary to prevent the recurrence of the deficiencies noted.
Reporting	After the inspection procedures are performed, the summary monitoring report contained in appendix D of this document is completed.

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Retention Policy	After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.
Follow-Up	Three months after the summary monitoring report is prepared and the planned corrective actions are identified, the sole practitioner performs sufficient procedures to determine whether the corrective actions indicated in the summary monitoring report have been taken and whether they have achieved their objectives.

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Example 2—Implementation of an Inspection Program

DESCRIPTION OF THE FIRM

Size of Firm	6 Partners 30 Professional staff other than the partners 1 Office	
Background	Each partner has 20 years of public accounting experience with the last 5–10 years spent as a partner.	
Nature of Practice	70 Audits	14,500 hours
	30 Reviews	3100 hours
	380 Compilations	4400 hours
	20 Examinations	500 hours
	1 Agreed-upon Procedure	100 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	The major concentration is health care services (nursing homes). The firm also has clients in Yellow Book, Employee Retirement Income Security Act, and the SEC.	
Environment	• One partner serves as quality control partner for the firm. • On certain larger engagements, one partner will review the financial statements prepared in connection with the other partner's clients. The review is not comprehensive enough to qualify as an inspection procedure.	

MONITORING PROCEDURES

Procedures	The firm evaluates compliance with its quality control policies and procedures by performing an annual inspection. The firm also includes engagement deficiencies identified through engagement performance procedures, such as engagement quality control review (EQCR), in the summary of findings from monitoring procedures.
Timing	All inspection procedures are performed at one time during the year in November. EQCR is performed as an engagement performance procedure on an ongoing basis on (describe engagements subject to inspection) prior to the report release date.
Documentation	The firm documents monitoring by completing the following: • Appendix C of this document when testing the broad functional elements of quality control. • The engagement review checklists used in performing peer reviews when reviewing the selected accounting and auditing engagements.
Summarization	A list of the engagement deficiencies identified through engagement performance procedures is maintained in a finding folder. After the sample of additional engagements selected during the inspection have been reviewed and the applicable broad functional elements of quality control tested, the deficiencies from EQCR and inspection are summarized, and the coordinating partner evaluates what actions, if any, are necessary to prevent the recurrence of the deficiencies noted.
Reporting	After the inspection procedures are performed, the summary monitoring report contained in appendix D of this document is completed.

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Retention Policy	After the summary monitoring report is finalized, no documentation, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.
Follow-Up	Four months after the summary monitoring report is prepared and the planned corrective actions are identified, the coordinating partner performs sufficient procedures to determine whether the corrective actions indicated in the summary monitoring report have been taken and whether they have achieved their objectives.

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Example 3—Implementation of an Ongoing Postissuance Review Program

DESCRIPTION OF THE FIRM

Size of Firm	2 Partners 6 Professional staff other than the partners 1 Office	
Background	Each partner has 15 years of public accounting experience with the last 5 years spent as a partner.	
Nature of Practice	8 Audits	1500 hours
	20 Reviews	800 hours
	130 Compilations	1200 hours
	Tax and management advisory service engagements make up the remainder of the practice.	
Industry Concentrations	The major concentrations are not-for-profit organizations and school districts. The firm also has clients in construction and professional services. The firm performs no audits of SEC clients.	

Environment

- The partner responsible for the school district audits is responsible for ensuring that he and the primary staff on those audits have the necessary continuing professional education (CPE) under *Government Auditing Standards*.
- The firm periodically holds in-house CPE for the staff, which is taught by outside instructors.

MONITORING PROCEDURES

Procedures

The firm evaluates compliance with its quality control policies and procedures at the engagement level by performing a postissuance review on all audit engagements and on a sample of other types of engagements. Because there are only two partners, each partner performs the postissuance review for the other.

Timing

Postissuance reviews are performed throughout the year immediately after the firm issues the report on the engagement. The results of the postissuance reviews are summarized quarterly, each January, April, July, and October. The broad functional elements of quality control are tested annually, each July.

Documentation

The firm documents monitoring by completing the following:

- Appendix C of this document when testing the broad functional elements of quality control.
- A postissuance review checklist when reviewing accounting and auditing engagements. The post issuance review covers the report, financial statements, and documentation on the engagement and is comprehensive enough to allow the firm to determine whether
  - *a.* the report and financial statements conform to applicable professional standards.
  - *b.* the engagement was performed in accordance with applicable professional standards (Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, and so forth).
  - *c.* the engagement was performed in accordance with the firm's quality control policies and procedures.

Although comprehensive engagement review checklists, such as those used by peer reviewers, are not completed, the postissuance reviewer references those checklists when performing the postissuance reviews, if needed.

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Summarization	A list of the engagement's deficiencies is maintained for summarization purposes. (The names of the clients are not retained on the lists.) Each quarter, one of the partners summarizes the lists of findings noted on the postissuance reviews performed during the quarter and evaluates what actions, if any, are necessary to prevent the recurrence of the deficiencies noted. The summary prepared in July also includes any findings noted during the testing of the broad functional elements of quality control for the year.
Reporting	In January, April, July, and October the summary monitoring report contained in appendix D of this document is completed. The findings in the summary monitoring report, and any policy and procedure changes resulting from them, are discussed at a quarterly staff meeting.
Retention Policy	After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.
Follow-Up	Three months after the summary monitoring report is prepared and the planned corrective actions are identified, the partner who prepared the summary monitoring report performs sufficient procedures to determine whether the corrective actions indicated in the report have been taken and whether they have achieved their objectives.

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Exhibits

Exhibit 1—Sample Completed Summary Monitoring Report Inspection Program (Based on Example 2)

Monitoring Period: From *October 1, 20XX* to *September 30, 20XX*

Names of Reviewers: *John Smith, James Doe*

Briefly describe the monitoring procedures used by the firm. The firm evaluated compliance with its quality control policies and procedures through a periodic inspection performed annually in November. The firm also includes deficiencies noted during the engagement quality control review (EQCR) that is performed as an engagement performance procedure on an ongoing basis on (describe engagements subject to EQCR) prior to the report release date. Appendix C of the Monitoring Guidance was used when testing the broad functional elements of quality control, and the engagement review checklists contained in the Peer Review Program Manual were used when reviewing the accounting and auditing engagements selected for inspection. A representative sample of engagements was selected for inspection, including audit, review, compilation, and agreed-upon procedures engagements. The engagements, either subject to EQCR or selected for inspection, covered our major industry concentration (health care services) and the high risk areas of Yellow Book, Employee Retirement Income Security Act (ERISA), and Securities and Exchange Commission (SEC) registrants.

Provide a risk assessment of the firm: The firm consists of 6 highly experienced partners and 30 professionals in one office. The firm has clients in high risk industries including SEC, Yellow Book, and ERISA. The firm also has a concentration in nursing homes. One partner is responsible for monitoring quality control for the firm. Additionally, audits represent approximately 65 percent of the total A&A hours for the firm. Additionally, the firm has a comprehensive library and uses third party practices that are updated at least annually. On the firm's most recent peer review and Public Company Accounting Oversight Board inspection, a few relatively minor findings were found, which will be specifically addressed in the engagement selections. Inherent risk is deemed moderate due to the high risk client portfolio and control risk is considered to be low.

Scope of engagements reviewed based on risk assessment:

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	Firm Totals		Engs. Reviewed	
	Hrs.	No. of Engs.	Hrs.	No. of Engs.
Statement on Auditing Standards—				
Securities and Exchange Commission (SEC)	250	1	250	1
Employee Retirement Income Security Act:				
Defined Contribution Plans (excluding 403(b) plans)	400	3	140	1
Defined Contribution Plans (403(b) plans only)				
Defined Benefit Plans				
Health and Welfare Plans				
ESOPs				
Carrying Broker Dealers				
Non-carrying Broker Dealers				
Other Audits Under Statements on Auditing Standards	3,600	56	300	5
Audits Under PCAOB Standards, not covered by PCAOB permanent inspection program				
Other Entries, subject to SEC independence rules	100	1	100	1
Federal Deposit Insurance Corporation Improvement Act				
Engagements Subject to *Government Auditing Standards* (GAS):				
Single Audit Engagements	3800	9	400	1
All Others Subject to GAS				
Attestation Engagements (Examination, Review or Agreed-upon Procedures under GAS)				
Performance Audits				
Statement on Standards for Accounting and Review Services (SSARS)—	1,200	30	350	2
Compilations With Disclosures				
Compilations That Omit Disclosures	10,000	380	65	3
Preparation Engagements With Disclosures				
Preparation Engagements That Omit Disclosures				
Statement on Standards for Attestation Engagements—				
Examination of SOC 1® Reports				
Examination of SOC 2® Reports				
Examination of SOC 3®Reports				
Examinations	500	20	65	2
Reviews				
Agreed-Upon Procedures	65	5	30	3
Attest Engagements Under PCAOB Standards, not covered by PCAOB permanent inspection program				
Total	19,915	505	1,700	19
Percentage of A&A Practice Reviewed			8.5%	3.8%

Did the monitoring procedures indicate that the firm's system of quality control is insufficient to provide reasonable assurance that it complies with professional standards and regulatory and legal requirements, or disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm, or require the firm to perform additional procedures to provide a basis for the report issued? Yes ☐ No ☐

If yes, describe the situation and the action(s) taken by the firm. A management representation letter was not obtained from an audit client. The representation letter has now been obtained.

See attachment for summary of monitoring findings and for recommendations of corrective actions.

Inspection Coordinator Signature _____ Date _____

Approved _____ Date _____

Findings and Recommendations

1. Finding—On several engagements reviewed, we noted inappropriate answers on the disclosure checklist, which resulted in the financial statements missing a few disclosures. There was no pattern to the missing disclosures, and all were minor in nature.

   Recommendation—The firm should hold a staff meeting for all professional personnel to remind them about the importance of completing the disclosure checklist correctly. If personnel do not fully understand a question, they should read the underlying professional literature and consult with the quality control partner if further guidance is needed, or they believe continuing professional development should be offered on the topic.

2. Finding—On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm's audit clients to ensure that this was an isolated occurrence.

   Recommendation—The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the documented procedures are performed before the report is issued.

3. Finding—Although the firm obtains signed independence, integrity, and objectivity confirmations from its entire staff on an annual basis, two of those confirmations disclosed exceptions that were not resolved and that resolution documented. No inappropriate reports were issued as a result.

   Recommendation—The quality control partner, who is in charge of obtaining independence, integrity, and objectivity confirmations should, when monitoring their receipt, review the confirmations for exceptions, resolve any exceptions noted, and document the resolutions. In the two cases noted, no independence problems occurred as a result of the exceptions.

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Exhibit 2—Sample Completed Summary Monitoring Report Postissuance Review Program (Based on Example 3)

Monitoring Period: From *April 1, 20XX* to *June 30, 20XX*

Names of Reviewers: *John Smith, James Doe*

Briefly describe the monitoring procedures used by the firm. The firm evaluated compliance with1 its quality control policies and procedures at the engagement level through performance of postissuance reviews and summarized the results quarterly (each January, April, July, and October). Appendix C of the Monitoring Guidance was used when testing the broad functional elements of quality control for the year (each July). A postissuance review checklist was used when reviewing selected accounting and auditing engagements. The postissuance reviews covered the report, financial statements, and documentation on all audit engagements issued during the quarter and a representative sample of the other types of engagements. No postissuance reviewer was associated with the engagement he or she reviewed.

Provide a risk assessment of the firm: The firm consists of two experienced partners and six professionals in one office. The firm has concentrations in Yellow Book (not-for-profits and school districts), in addition to clients in construction and professional services. Additionally, audits represent approximately 43 percent of the total A&A hours for the firm. Additionally, the firm has a comprehensive library and uses third party practices that are updated at least annually. The firm's most recent peer review yielded no findings. Inherent and control risk are considered to be low to moderate based on the information presented previously.

Scope of engagements reviewed based on risk assessment:

	Total for Year		*Total for Qtr.*		*Engs. Reviewed*	
	Hrs.	*No. of Engs.*	*Hrs.*	*No. of Engs.*	*Hrs.*	*No. of Engs.*
SAS—						
Audits—						
Yellow Book	600	3	200	1	100	1
Other	900	5	370	2	370	2
SSARS—						
Reviews	800	20	200	5	80	2
Compilations	1200	130	280	30	50	5
SSAE—						
Other						
Total	3500	158	1050	38	600	10
Percentage of A&A Practice			30.0%	24.1%	17.1%	6.3%

Did the monitoring procedures indicate that the firm's system of quality control is insufficient to provide reasonable assurance that it complies with professional standards and regulatory and legal requirements, or disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm, or require the firm to perform additional procedures to provide a basis for the report issued? Yes ☐ No ☐.

If yes, describe the situation and the action(s) taken by the firm. A management representation letter was not obtained from an audit client. The representation letter has now been obtained.

See attachment for summary of monitoring findings and for recommendations of corrective actions.

Inspection Coordinator Signature _____ Date _____

Approved _____ Date _____

Findings and Recommendations

1. Finding—On several engagements reviewed, we noted inappropriate answers on the disclosure checklist, which resulted in the financial statements missing a few disclosures. There was no pattern to the missing disclosures, and all were minor in nature.

   Recommendation—The firm should hold a staff meeting for all professional personnel to remind them about the importance of completing the disclosure checklist correctly. If personnel do not fully understand a question, they should read the underlying professional literature and consult with the quality control partner if further guidance is needed, or they believe continuing professional development should be offered on the topic.

2. Finding—On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm's audit clients to ensure that this was an isolated occurrence.

   Recommendation—The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the documented procedures are performed before the report is issued.

3. Finding—Although the firm obtains signed independence, integrity, and objectivity confirmations from its entire staff on an annual basis, two of those confirmations disclosed exceptions that were not resolved and that resolution documented. No inappropriate reports were issued as a result.

   Recommendation—The quality control partner, who is in charge of obtaining independence, integrity, and objectivity confirmations should, when monitoring their receipt, review the confirmations for exceptions, resolve any exceptions noted, and document the resolutions. In the two cases noted, no independence problems occurred as a result of the exceptions.

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