

HBL CPAS, P.C.
QUALITY CONTROL DOCUMENT

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OUR GOAL

The goal of HBL CPAs, P.C. (“HBL” or the “Firm”) is to provide quality services to its clients, in accordance with the standards of the profession. To accomplish this, the Firm has adopted policies and procedures to ensure a quality practice. This Quality Control Document describes the policies and procedures that the Firm has established for its accounting and auditing practice, as defined by Statements on Quality Control Standards (SQCS). This document serves as a reference for our professional personnel conducting these engagements, and they are required to be familiar with its contents. All employees of the Firm are provided copies and are responsible for understanding, implementing and adhering to these policies and procedures.

The Firm is a member of the AICPA Governmental Audit Quality Center (GAQC) and the AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) (collectively referred to as the “Centers”) and has agreed to establish policies and procedures specific to the Firm’s governmental audit practice and ERISA employee benefit plan practice to comply with the applicable professional standards and the membership requirements of the respective Centers. These policies and procedures are documented and communicated by this document.

As required by the membership requirements of the respective Centers, it is the policy of the Firm that all eligible audit partners be members of the AICPA. It is the responsibility of the managing partner to annually advise each audit partner that AICPA membership is mandatory. Also, as required by the membership requirements of the respective Centers, the managing partner 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 Firm’s ERISA employee benefit plan practice.

This Quality Control Document covers the Firm’s policies with respect to its accounting and auditing practice within the six broad elements of quality control specified by SQCS No. 8 issued by the American Institute of Certified Public Accountants. In the other areas of the practice (e.g. tax and bookkeeping), the same general policies and procedures will normally apply, although this Quality Control Document does not specifically cover those services.

Policies refer to the Firm’s objectives and goals for placing in effect the elements of quality control. *Procedures* refer to the steps taken to accomplish the policies adopted. *Personnel* include all individuals who perform professional services for which the Firm is responsible, whether or not they are CPAs¹.

These policies and procedures have been designed to provide the Firm with reasonable assurance of conformity with professional standards and applicable regulatory and legal requirements, and that the reports issued by the Firm issue are appropriate in the circumstances².

¹ In line with AICPA definition of ‘professional’.

² QC 10.12

FIRM ORGANIZATION

FIRM BACKGROUND INFORMATION

HBL's purpose is to combine the expertise of its professionals to offer a full-service accounting firm capable of providing personalized service to each client. The Firm is a member of CPAmerica International, Inc., a national association of leading local CPA firms and, through CPAmerica, affiliated with Crowe Horwath International, world-wide association.

In May 2013, Hammel, Beal & Lauer, P.C. merged with DeVries CPAs of Arizona, P.C. These two firms had very complimentary practices, Hammel, Beal & Lauer with practice base strongly influenced by tax services and DeVries with an emphasis in nonprofit audit services. Each firm used the same paperless engagement software and the same third-party practice aid provider for its attest and accounting practices. Each firm's quality control policies and procedures were based on the most recent version of SQCS and this document incorporates elements of both.

The Firm's objectives are to:

- Provide high quality accounting, auditing, tax, and management consulting services to growth-oriented companies in our geographic area and, as technology and mobility allow, across the nation.
- Help each client reach its maximum potential through sound and efficient accounting, financial, tax and management advice.
- Offer close, personalized service on a timely basis.
- Be actively involved in professional, business, community, and civic affairs.

Organization Chart

BOARD OF DIRECTORS

Gerald H. Beal

Randall L. Brookshier

Marianne E. DeVries

Coleen A. Krogen, Chief Operations Officer

John P. Lauer, Managing Director

Throughout this manual, the terms director and partner are used interchangeably. For each practice segment, the Firm has identified partners to take lead roles in supervising the segment's services. The designation of a particular role does not preclude any partner from practicing in another chosen area, and the Firm's directors maintain a generalist approach to practice development. Roles may shift over time and designations are not formalized.

Along with each director, the Firm has named managers responsible for each of the three business segments, tax, audit, and accounting services. In addition to these line managers, the Firm staff includes seasonal and semi-retired professional associates with decades of experience and wisdom behind them to assist in supervising and mentoring staff.

The Firm structure also includes supervisors, senior and junior staff members, or associates, and administrative personnel. Below the position of manager, titles are not formalized.

LEADERSHIP RESPONSIBILITIES FOR QUALITY³

POLICIES

It is the Firm's policy to promote a culture of quality that is intended to be pervasive throughout our operations and implemented through the development of our system of quality control. Firm management, under the direction of the managing director, 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 relevant 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.

PROCEDURES

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

1. The Firm dedicates sufficient and suitable resources to its quality control system and quality initiative and assigns the operational responsibility for the Firm's quality control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary QC policies and procedures. The Firm appropriately communicates clear, consistent, and frequent actions and messages that emphasize the Firm's quality control policies and procedures. Such actions and messages include—
 - a. Providing a copy of the Firm's system of quality control document to all new professional employees and reviewing the document and its importance with them.
 - b. Reviewing the Firm's quality control policies and procedures, especially in areas where questions or problems have arisen, with personnel during Firm meetings and group or individual training sessions.
2. The managing director and /or partners in charge of engagements are responsible for evaluating client relationships and corresponding engagements to ensure that commercial considerations are not placed ahead of the Firm's commitment to quality control. Additionally, the Firm's compensation and advancement policy and procedures (covered in the Human Resources section) do not place commercial considerations ahead of the quality of work performed.
3. The managing director and other directors in the Firm demonstrate the importance of quality by their actions. Such actions include:
 - a. Making decisions with a focus on the public interest and emphasizing that personnel do the same.
 - b. Demonstrating the importance of creating and maintaining a good public reputation.
 - c. Ensuring directors and staff have sufficient time and resources to solve engagement challenges.
 - d. Following the spirit, as well as the letter, of professional, regulatory, and legal standards.

³ QC 10.19 – 20

- e. Displaying enthusiasm and sincerity in communicating its commitment to a quality initiative.
 - f. Demonstrating consistency.
4. The Firm requires employees to adhere to a set of ethical standards set forth by our professional associations as described in the Relevant Ethical Requirements section below, and guides personnel to make appropriate decisions throughout their workday by regularly communicating these standards to all employees.
 5. The Firm establishes and maintains a positive work environment by combining the Firm's quality objectives with the individual's need to be valued and appreciated.
 6. The Firm hires, compensates, and promotes individuals who possess and exhibit high levels of integrity, as covered in the Human Resources section.
 7. The Firm provides ethics training in accordance with the requirements of the Arizona State Board of Accountancy and our professional associations. (See also the Relevant Ethical Requirements section.)
 8. The Firm rewards personnel who demonstrate a commitment to quality through its performance evaluation, compensation, and advancement system, as covered in the Human Resources section.
 9. The Firm does not allow unethical behavior to occur unchallenged and addresses instances of noncompliance with the Firm's quality control system through swift disciplinary action, including and up to termination of the offending employee.
 10. At least annually, the Firm's Leadership Responsibilities policies and procedures are reviewed to determine if they are appropriate and operating effectively. (See the Monitoring section of this document for further information.)

RELEVANT ETHICAL REQUIREMENTS⁴

POLICIES

The Firm has established policies and procedures that provide reasonable assurance that personnel will be familiar with and adhere to relevant ethical requirements and personnel will always act in the public interest.

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

PROCEDURES

The Firm communicates and ensures compliance through the following procedures:

1. The Firm's office manual is used to inform personnel of the Firm's relevant ethical requirements policies and procedures and advise them that they are expected to be familiar with those policies and procedures. Rulings and interpretations of the AICPA are also made available to the personnel.
2. Independence of mental attitude is emphasized during the conduct of engagements.
3. Our current client listing is reviewed with each new employee to ensure that the employee is aware of those clients whom we serve. In addition, all personnel are provided with our client list and new client updates, which are distributed on a regular basis via email. Firm personnel are to inform the administrative director of any client with which they have a potential independence problem.
4. The Firm maintains a current copy of the relevant ethical requirements in the Firm's library, and personnel also have online access to this information. As a result, all personnel have ready access to the ethical requirements to which the Firm is subject, and the Firm expects its personnel to be familiar with those relevant ethical requirements. Those requirements include the AICPA Code of Professional Conduct, the Arizona State Board of Accountancy, and the Arizona State Society of CPAs ethical requirements.

⁴ QC 10.21 – 26

5. The managing director and the auditing services directors are responsible for the resolution of exceptions to the Firm's policies and procedures relating to relevant ethical requirements. If a potential threat to independence is identified, these directors accumulate and communicate relevant information to appropriate personnel so (a) firm management and the director in charge of the engagement can determine whether they satisfy independence requirements, (b) the director in charge of the engagement can take appropriate action to address identified threats to independence, and (c) the Firm can maintain current independence information. For attest clients of whom the Firm is not independent, only compilation services may be performed.
 - a. The director in charge of auditing services or designee is responsible for resolving questions relating to independence matters and is available to provide guidance when required.
 - b. The director in charge of auditing services or designee communicates with the AICPA for assistance in resolving independence questions that are not satisfactorily resolved within the Firm.
 - c. If a breach in independence is identified, the Firm promptly communicates the breach and the required corrective actions to (a) the director in charge of the engagement, who (along with the Firm) has the responsibility to address the breach and (b) other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action. The practitioner in charge of the engagement confirms to the Firm when required corrective actions related to the breach and noncompliance with these policies and procedures has been taken.
 - d. A memorandum documenting the resolution of independence questions is prepared and retained in the client engagement file; the other firm personnel involved in the matter receive a copy of the memorandum if the question relates to their independence.
 - e. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent work paper binder.
6. Accounts receivable are reviewed periodically by the directors. Any outstanding amounts that may take on some of the characteristics of loans and may, therefore, impair the Firm's independence, are then reviewed with the auditing director.
7. Confirmation of independence is obtained upon employment by new personnel and annually thereafter confirming that:
 - a. They are familiar with our Firm's relevant ethical requirements policy and procedures, particularly with regard to independence.
 - b. Prohibited investments are not held and were not held during the period.
 - c. Prohibited relationships do not exist.
 - d. Transactions prohibited by the Firm have not occurred.
8. Ethics training is provided in accordance with the requirements of the Arizona State Board of Accountancy. Such training covers the Firm's relevant ethical requirements policy and procedures and the independence and ethical requirements of all applicable regulators.
9. To ensure that independence is properly addressed at the engagement level, the engagement partner considers relevant information about client engagements and evaluates the overall effect, if any, on independence requirements as part of the engagement acceptance and continuance

decision. In making this determination, any familiarity threat related to senior personnel recurring on an audit or attest engagement for five years or more will be considered, including any other specific rotation requirements of regulatory agencies or other authorities. Additionally, The work programs and standard forms in the accounting and auditing manuals used by the Firm include steps that require:

- a. A determination of complying with relevant requirements on each new and recurring client.
 - b. A consideration of unpaid fees.
 - c. An annual confirmation of the independence of another accountant performing work on a segment of an audit, review, or attestation (including forecast and projection) engagement. The form and content of the independence representation that is to be obtained is a copy of our Firm's policy and a compliance letter that is to be returned prior to the beginning of any field work on the part of the other Firm.
 - d. Appropriate reporting on compilations in which the Firm is not independent.
 - e. A consideration of whether actual or threatened litigation has an effect on the Firm's independence with respect to the client.
 - f. A determination of whether all professional personnel are independent of the financial reporting entity if the Firm is engaged as the principal auditor to report on the basic financials of the financial reporting entity.
 - g. A consideration of whether the Firm was party to a cooperative arrangement with a client that was material to the Firm or the client.
10. The practitioner in charge of the engagement has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services may threaten or impair independence with respect to the client. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the Firm. Where applicable, this includes determining whether such nonattest services threaten or impair independence under the independence rules in *Government Auditing Standards* for ongoing, planned, and future audits, and for the application of appropriate safeguards. Firm engagement work programs for all attest engagements include steps to ensure compliance with this procedure.
11. The managing director, in consultation with the other owners of the Firm, is responsible for determining actions to be taken when professional personnel violate 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 letter of reprimand, or termination.
12. The managing director is responsible for monitoring the Firm's independence of attest clients at which directors or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the Firm and the client acceptance checklists used by the Firm in attest engagements include questions to help ensure compliance with this requirement.

13. At least annually, the managing director reviews the Firm's Ethical Requirements policy and procedures to determine if they are appropriate and operating effectively. (See the Monitoring section of this document for further information.)

POLICIES

Policies and procedures for all compilation, review, audit, and other attestation engagements are designed to provide reasonable assurance that (a) the likelihood of association with a client whose management lacks integrity is minimized, (b) the Firm undertakes only those engagements that can be completed with professional competence, (c) the risks associated with providing professional services in particular circumstances are appropriately considered, and (d) an understanding with the client regarding the services to be performed is reached.

It is the policy of the Firm to evaluate factors that have a bearing on management's integrity. The Firm will evaluate prospective engagements and accordingly undertake only those engagements that can be completed with professional competence and will appropriately consider the risk associated with providing professional services in particular circumstances. The Firm will obtain an understanding with the client regarding the services to be performed.

PROCEDURES

The policies will be adhered to by performing the following procedures:

1. For each prospective new client (or existing tax or consulting client) that requests an initial compilation, review, audit, or other attestation service, the practitioner making contact with the client is required to complete an engagement acceptance form. In addition, the following are obtained at the discretion of the director in charge on the engagement after consideration of the nature of the work to be performed, the source of the referral, and prior direct or indirect knowledge of the potential client.
 - a. Available financial information regarding the prospective client, such as annual reports, interim financial statements, and income tax returns is obtained and reviewed.
 - b. Inquiries about potential clients are made to bankers, attorneys, credit services, or others having business relationships with the company.
 - c. Predecessor auditors (if applicable) are contacted and inquiries are made in accordance with generally accepted auditing standards.
 - d. Consideration is given to circumstances that would cause the Firm to regard the engagement as one requiring special attention or presenting unusual risks. These circumstances include:
 - i. Audits of entities operating in high-risk industries, such as those industries where it is difficult to establish adequate systems of internal control or those industries whose operations are especially sensitive to general economic conditions.
 - ii. Audits of entities in the development stage.
 - iii. Audits of entities in serious financial difficulty.

⁵ QC 10.27 – 30

- a. The Firm's independence and ability to adequately serve a potential client are evaluated prior to acceptance. In evaluating the Firm's ability, consideration is given to the requirements for technical skills, knowledge of the industry, and availability of qualified personnel.
 - b. An evaluation is performed to ensure that acceptance of the client would not violate applicable regulatory agency requirements and the codes of professional ethics of the AICPA and the Arizona Accountancy or other applicable state statutes and regulations.
 - c. The practitioner in charge of the engagement or designee assembles the information and evaluates all matters described in the previous paragraphs.
 - d. The practitioner in charge of the engagement or designee is responsible for administering the procedures for acceptance of clients under their billing. The administrative director or designee performs a review for compliance with the Firm's policies and procedures for acceptance of clients and makes a report to the other directors.
2. Existing clients are evaluated periodically to determine whether the relationship should be continued.
 - a. Re-evaluations are made on an as-needed basis with consideration of changes in the following areas:
 - i. Ownership, management, directors, financial condition, litigation status, nature of client's business, scope of work, delinquency in paying fees.
 - ii. Upon significant changes in the client and its operations or emergence of conditions that would have caused the Firm to reject a client had such conditions existed at the time of the initial acceptance.
 - a. All directors are responsible for evaluating the information obtained, making continuous recommendations and administering Firm procedures for continuance of clients.
3. The engagement work programs used by the Firm contain steps requiring the engagement team to consider whether the Firm should discontinue providing all or certain services to a client.
4. The managing director or the engagement practitioner documents how issues identified during the acceptance and continuance process were overcome and resolved so that the Firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusions, and the basis for the conclusions.
5. The managing director is notified of any instances in which the Firm should discontinue providing all or certain services to a client or should withdraw from a current engagement. The director in charge is responsible for all communications with clients regarding the discontinuance of services. Furthermore, the managing director should consider whether outside legal counsel should be consulted in making such a decision. The engagement team will be notified by the director in charge 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 practitioner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter should document the Firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed, as well as the identification of the engagement director and his or her role.
7. If the Firm discovers a potential conflict of interest during acceptance and continuance decision, the managing director determines whether it is appropriate to accept the engagement. If the engagement is accepted, the ethical requirements under AICPA Interpretation No. 102-2, "Conflicts of Interest", under Rule 102, *Integrity and Objectivity*, are considered.
8. At least annually, the managing partner reviews the Firm's acceptance and continuance client relationships and specific engagement policy and procedures to determine if they are appropriate and operating effectively. See the Monitoring section of this document for further information.

HUMAN RESOURCES⁶

OVERALL POLICIES

The success of the Firm is dependent upon its professional staff. It is our intent to succeed in the marketplace by having sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:

- a) perform engagements in accordance with professional standards and relevant legal and regulatory requirements, and
- b) enable the Firm to issue reports that are appropriate in the circumstances.⁷

Having effective policies and procedures over the human resources element will help ensure the proficiency of its personnel. Further, it is our Firm's intent to provide that personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume.⁸

The activities of a comprehensive human resources QC system include⁹:

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

Policies and procedures for these activities are detailed below. At least annually, the managing director reviews the Firm's human resources policies and procedures to determine if they are appropriate and operating effectively. See the Monitoring section of this document for further information.

⁶ QC 10.31 – 34

⁷ QC 10.31

⁸ QC 10.32

⁹ QC 10.A17

POLICY

The Firm will hire individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the Firm's work and possess the appropriate characteristics to enable them to perform competently.¹⁰ It is the Firm's goal to maintain staffing at a level to avoid excessive overtime.

PROCEDURES

The policy will be adhered to by use of the following procedures:

Planning for personnel needs and establishing hiring objectives:

1. The directors annually plan the Firm's long-range personnel objectives. Current clientele, anticipated growth, personnel turnover, individual advancement, and retirement are among the criteria considered.
2. The plan also considers the number and qualifications of personnel to be hired and the sources and methods for meeting these requirements.
3. The directors, as a group, make the employment decisions.

The Firm evaluates potential hires based on the following qualifications and guidelines:

1. Individuals with high levels of intelligence, integrity, honesty, motivation, and aptitude for the profession.
2. For professional positions, a college graduate with a concentration in accounting and previous experience working in a CPA firm, with preference towards those who have a Masters in Accounting or have met the 150 hour and other education requirements to qualify for the CPA certificate. The following general criteria are considered in hiring decisions:
 - a. Academic background
 - b. Personal achievements
 - c. Work experience
3. The backgrounds of new employees are appropriately investigated to reasonably assure hiring of persons with acceptable qualifications by obtaining completed application forms or a resume and personal and employment references as deemed necessary.
4. Certified Public Accountants must be members in good standing with the Arizona State Board of Accountancy or if having moved into the state recently, are members in good standing with their registered state.
5. Potential employees are interviewed by at least two directors, who inform candidates about the policies of the Firm and who inquire about the candidate's qualifications.

¹⁰ QC A.17

DETERMINING COMPETENCIES AND CAPABILITIES

POLICY

Competencies and capabilities are the knowledge, skills, and abilities that qualify personnel to perform an engagement covered by this document. It is the Firm's policy to ascertain whether individual members of the professional staff possess requisite capabilities and competencies. In making this determination, the Firm primarily considers qualitative measures, as opposed to quantitative ones.¹¹

PROCEDURES

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

1. Periodically, the directors assess the capabilities and competencies of engagement practitioners to help assure proper engagement performance. The following capabilities and competencies are assessed based on the characteristics of the particular client, industry, and service provided:¹²
 - a. An understanding of the role of the Firm's system of quality control and the AICPA *Code of Professional Conduct*.
 - b. An understanding of the performance, supervision, and reporting aspects of the engagement. This understanding is usually gained through actual participation under appropriate supervision in that type of engagement.
 - c. An understanding of the applicable professional standards, including those directly related to the industry in which a client operates, and the kinds of transactions in which a client engages.
 - d. An understanding of the industry in which a client operates to the extent required by professional standards applicable to the kind of service being performed. In performing an audit or review of financial statements, this understanding would include an industry's organization and operating characteristics sufficient to identify areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry-specific estimates.¹³
 - e. Skills that indicate sound professional judgment including the ability to exercise professional skepticism and identify areas requiring special consideration, including, for example, the evaluation of the reasonableness of estimates and representations made by management and the determination of the kind of report appropriate in the circumstances.
 - f. A sufficient understanding of how the organization is dependent on, or enabled by, information technologies and the manner in which the information systems are used to

¹¹ QC 10.A18

¹² QC 10.A27

¹³ QC 10.A26

record and maintain financial information to determine when involvement of a specialist, such as an IT professional, is necessary for an audit engagement.

2. The Firm considers other engagement practitioner capabilities and competencies as needed in the circumstances, which may include:
 - a. Various personal attributes, such as integrity and ethics, professionalism, project management skills, etc.
 - b. Leadership qualities, including strategic thinking and planning, negotiating and persuading, teamwork, problem solving, coaching and empowerment, etc.
 - c. Perspective on business issues, such as managing and developing people, marketing and selling, knowledge of best practices, business advisory skills, etc.
3. The Firm will consider whether the engagement practitioner has gained the necessary competencies through relevant and appropriate experience in engagements covered by this document. If determined necessary, the engagement practitioner's experience may be supplemented by CPE and consultation as detailed in Item 4 below.¹⁴
4. The Firm determines how engagement practitioners and other personnel can best obtain additionally needed capabilities and competencies. These may be developed through a variety of methods; including, for example, the following:¹⁵
 - a. Professional education
 - b. Continuing professional development, including training
 - c. Work experience
 - d. Mentoring by more experienced staff, such as other members of the engagement team
 - e. Independence education for personnel who are required to be independent
5. The Firm emphasizes the importance of passing the Uniform CPA Examination.¹⁶
6. Performance evaluations are conducted, at least annually, to determine the capabilities and competencies possessed by each professional staff other than directors.

¹⁴ QC 10.A25

¹⁵ QC 10 10.A19

¹⁶ QC 10.A20

ASSIGNMENT OF PERSONNEL TO ENGAGEMENTS

POLICY

The Firm will assign responsibility for each engagement to an engagement practitioner such that:

1. the engagement practitioner has the appropriate competence, capabilities, and authority to perform the role; and
2. the responsibilities of the engagement practitioner are clearly defined and communicated to that individual.¹⁷

Further, the Firm will assign appropriate personnel with the necessary competence and capabilities to:

1. perform engagements in accordance with professional standards and applicable legal and regulatory requirements and
2. enable the Firm to issue reports that are appropriate in the circumstances.¹⁸

PROCEDURES

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

1. When assigning engagement teams, and in determining the level of supervision required, the Firm considers the:
 - a. Engagement size and complexity
 - b. Personnel availability and involvement of supervisory personnel
 - c. Specialized experience and expertise required
 - d. Timing of the work to be performed
 - e. Continuity and rotation of personnel
 - f. Opportunities for on-the-job training
 - g. Situations where independence or objectivity concerns exist
 - h. Proficiency of the professional and ability to exercise seasoned judgment.
2. In addition to assessing engagement practitioner and staff capabilities and competencies (see the Determining Capabilities and Competencies section), the Firm clearly defines and communicates the responsibilities and authority, and evaluates their work load to ensure that they have the time to adequately perform their roles.
3. The identity and role of the engagement practitioner are communicated to client management and those charged with governance through a written engagement letter.
4. The Firm recognizes that many modifications to the staff assignments plan will be required based on changes in client circumstances that affect the required competencies for the engagement, ongoing consideration of competencies possessed by Firm partners and personnel assigned to

¹⁷ QC 10.33

¹⁸ QC 10.34

particular engagements, addition or loss of clients, staff turnover, delays in the timing of work, or other unforeseen events.

Modifications are made based on an informal meeting of the partners and managers affected by the changes and after a reconsideration of the planning factors discussed in Assignment of Personnel to Engagements, Procedures 1 through 3 above. Any disputes regarding assignment of personnel are resolved by the managing partner. Members of the staff are informed through revised staffing plans made available by the managing partner of staffing changes and new assignments

PROFESSIONAL DEVELOPMENT

POLICY

The continuing competence of our personnel depends, to a significant extent, on an appropriate level of continuing professional development so that personnel maintain their knowledge and capabilities. Personnel will participate in general and industry-specific continuing professional education and professional development activities that enable them to fulfill responsibilities assigned and to satisfy applicable continuing professional education requirements of the AICPA and regulatory agencies.¹⁹ Furthermore, it is the policy of the Firm that all professional staff maintains an adequate awareness and understanding of current developments in professional standards, and that all professional staff assists in the training and development of staff members under their supervision.

The Firm places a high emphasis on the individual's initiative to improve his/her skills and knowledge and to devote substantial personal time in these efforts.

PROCEDURES

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

1. All directors and any eligible staff are encouraged to be members of the AICPA and the Arizona Society of Certified Public Accountants.
2. The administrative director or designee is responsible for the formulation and implementation of guidelines and requirements for professional development.
3. As part of their orientation, new employees are informed of professional responsibilities and opportunities. In addition, all new employees are informed of the Firm's personnel policies and procedures on their first day of employment.
4. The directors and full-time professional employees are required to complete a minimum of formal continuing professional education each year and in any two-year period in accordance with standards established by the State Boards of Accountancy in each state that the individual is certified and the AICPA. The types of programs qualifying for the fulfillment of these requirements include:

¹⁹ QC 10.A20

- a. Continuing professional education programs of the AICPA, Arizona Society of CPAs, and CPAmerica International, Inc. This includes sessions attended and, with written evidence of completion, online and self-study programs.
 - b. College courses related to the profession.
 - c. In-house programs that qualify for CPE hours
 - d. Other programs qualifying for CPE credit under regulatory standards.
 - e. The administrative director or designee annually reviews the Firm's professional development program to determine whether it is adequately meeting the Firm's needs, providing for the professional growth of individuals, and meeting mandatory continuing education requirements.
5. Individuals who work on audits and attestation engagements subject to the *Government Auditing Standards* (also known as Generally Accepted Government Auditing Standards or Yellow Book), including planning, directing, performing fieldwork, or reporting on an audit or attestation engagement under GAGAS, should complete at least 24 hours of CPE every two years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book assignments are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits or attestation engagements. In other words, everyone working on a Yellow Book engagement needs to meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement or who do not charge at least 20% of their time annually to Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year measurement period. Auditors hired or initially assigned to GAGAS audits or attestation engagements after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours.
 - a. In accordance with the membership requirements of the AICPA the director assigned firm-wide responsibility for the quality of the Firm's Yellow Book audit practice must meet both the 24-hour and 80-hour CPE requirements even if that director would not otherwise be subject to those requirements.
 - b. The 2-year reporting period is measured on an individual basis to coincide with each practitioner's license renewal period. If a practitioner is not yet licensed, the 2-year period is governed by the Firm's peer review monitoring period which begins on April 1 of each year (specific monitoring for non-licensed personnel based on a reporting period ending on the last day of peer review period).
6. External specialists assisting in performing an assignment performed under Government Auditing Standards should be qualified and maintain professional competence in their areas of specialization but are not required to meet the Yellow Book CPE requirements. On the other hand, internal specialists who are part of the audit organization, and who are performing work under GAGAS as part of the audit team, including planning, directing, performing audit procedures, or reporting on an audit or attestation engagement, should comply with GAGAS, including the CPE requirements. The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an audit or attestation engagement.

7. Individuals who sign audit opinions and/or manage ERISA employee benefit plan audit engagements and individuals who work on ERISA employee benefit plan audit engagements must meet the CPE requirement of the AICPA Employee Benefit Plan Audit Quality Center.
8. Appropriate CPE documentation is maintained for each professional for the most recent five years. The managing director or designee will review summaries of CPE records for the Firm's personnel to determine that the office has established a means of tracking each individual's compliance with the requirements of the AICPA, State Boards of Accountancy, and other regulatory bodies.
9. Evaluation forms will be completed by attendees of the Firm's in-house training programs and suggestions for improvement considered.
10. The managing director or a committee of directors will periodically evaluate the professional development policies and procedures to determine whether they are appropriate, effective, and meeting the needs of the Firm.

Individual Development Activities

POLICY

Information about current developments in professional technical standards and material containing the Firm's technical policies and procedures are made available to personnel. Personnel are encouraged to engage in self-development activities.

PROCEDURES

The Firm ensures compliance with this policy through the following procedures:

1. The Firm maintains a current hard-copy and electronic library, and directors distribute information relating to current developments in accounting and auditing to all appropriate personnel not receiving them directly. This includes statements and interpretations issued by the Financial Accounting Standards Board or other standards setting bodies, and standards issued by the AICPA Auditing Standards Executive Committee, and other AICPA technical committees.
2. As new professional announcements are issued, firm practice aids such as audit programs, forms and checklists will be updated to conform to applicable changes.
3. The Firm conducts formal in-house training programs.
4. The Firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in such activities.

On-The-Job Training

POLICY

The Firm recognizes that on-the-job training accounts for a significant part of professional development and encourages personnel with supervisory responsibility to be aware of situations where it can be provided.

PROCEDURES

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

1. The personnel with in-charge responsibilities provide for on-the-job training by discussing with engagement staff the relationship of the work they are performing to the engagement as a whole. Also, during the review of working papers prepared by staff members, they explain the need for any additional work requirements discovered through the review process.
2. When practicable, employees are assigned to varying engagement areas.
3. Personnel are evaluated in part on their effectiveness to properly train and develop subordinates.

PERFORMANCE EVALUATION, COMPENSATION, AND ADVANCEMENT

POLICY

Effective performance evaluation, compensation, and advancement procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles by:

1. making personnel aware of the Firm's expectations regarding performance and ethical principles,
2. providing personnel with an evaluation of, and counseling on, performance, progress, and career development, and
3. helping personnel understand that their compensation and advancement to positions of greater responsibility depend upon, among other things, performance quality and adherence to ethical principles and that failure to comply with the Firm's policies and procedures may result in disciplinary action.²⁰

It is the Firm's policy that performance evaluation, compensation, and advancement decisions for professional personnel be based on a timely and objective evaluation of individual performance, that the personnel selected for advancement will have the qualifications necessary to fulfill the responsibilities they will be called upon to assume, and that compensation of personnel, including directors, be based in part on the quality of their work.

PROCEDURES

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

²⁰ QC 10.A22

1. The following personnel levels and related performance criteria are used by the Firm:
 - a. Staff Accountant (I and II)
 - b. Senior Staff (I and II)
 - c. Supervisor
 - d. Manager
 - e. Director (Partner, Shareholder)

The criteria that are considered in evaluating individual performance and expected proficiency are enumerated in our staff classification guidelines. See Appendix A.

2. At least annually, all employees receive an evaluation of their performance. Such performance evaluations are conducted by a director or designee. The individual's progress, strengths, weaknesses, future objectives, and the Firm's future objectives are among the items discussed.
3. Results of evaluations are documented in the individual's personnel file and reported to the partner group.
4. The directors as a group make advancement, compensation, and termination decisions and document the results.
5. Personnel will be counseled during the annual evaluation process regarding their progress and career opportunities within the Firm.
6. A personnel file is maintained for each employee.

ENGAGEMENT PERFORMANCE²¹

OVERALL POLICIES

Our policies and procedures for engagement performance are designed to provide reasonable assurance that engagements are consistently performed in accordance with professional standards, applicable regulatory and legal requirements, the Firm's standards of quality, and that the Firm or engagement partner issues reports that are appropriate in the circumstances. The policies address the following:

- Matters relevant to promoting consistency in the quality of engagement performance, including engagement performance and documentation
- Supervision responsibilities
- Review responsibilities

Accordingly, the Firm has chosen to differentiate certain activities within Engagement Performance as follows:

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

Policies and procedures for each of these activities are described below. At least annually, the managing director reviews the Firm's engagement performance policies and procedures to determine if they are appropriate and operating effectively. See the Monitoring section of this document for further information.

ENGAGEMENT PERFORMANCE AND DOCUMENTATION

POLICY

Engagements will be planned, performed, supervised, reviewed, documented, and communicated in accordance with the requirements of professional standards, applicable laws and regulations, and the Firm's policies and procedures.

Maintaining Firm Standards Procedures

Procedures for promoting consistency in the Firm's quality of engagement performance are as follows:

1. Depending upon each individual engagement team member's competence and capabilities in relation to the work assignment, varying degrees of supervision are provided. Competence and

²¹ QC 10.35 – .36

capabilities include whether the engagement team members have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement. Engagement supervision includes:

- Tracking the progress of the engagement
 - Addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately
 - Identifying matters for consultation or consideration by more experienced engagement team members during the engagement
2. Various practice aids (forms, checklists, questionnaires, etc.) are available for use on engagements. Informal time budgets may also be used as considered necessary by the engagement practitioner. Guidelines regarding the work papers necessary to meet professional standards, laws and regulations, and Firm requirements are provided in the Firm library or through access to Firm materials stored on the network server. For example, the Firm has adopted and integrated within its quality control system the use of PPC accounting and auditing practice aids. This QC document, the PPC manuals, and any other practice aids used by the Firm are intended solely to assist us in achieving compliance with professional standards. Accordingly, nothing within this QC document should be construed as (a) requiring a higher level of performance or documentation than the minimum specifically required by our Firm's QC policies and procedures, or (b) overriding the exercise of professional judgment.
 3. The Firm complies with the requirements established by professional standards and laws and regulations that address the assembly of final engagement files on a timely basis after the engagement reports have been released.
 4. 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 directors, with the assistance of the Firm's legal counsel and insurance carriers, as appropriate.
 5. The Firm protects the confidentiality, safe 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.

Review of Working Papers and Reports Procedures

Pertinent engagement work papers and all engagement reports are reviewed by a reviewer with appropriate experience, competence, and responsibility prior to issuance of the report on a timely basis.

1. The engagement practitioner or designee reviews the work papers prepared by other staff, including those prepared by a director. A review consists of consideration of whether:
 - the work has been performed in accordance with professional standards and applicable legal and regulatory requirements.
 - significant findings and issues have been raised for further consideration.

- appropriate consultations have taken place and the resulting conclusions have been documented and implemented.
 - the nature, timing, and extent of the work performed is appropriate and without need for revision.
 - the work performed supports the conclusions reached and is appropriately documented,
 - the evidence obtained is sufficient and appropriate to support the report.
 - the objectives of the engagement procedures have been achieved.
2. The engagement practitioner or designee reviews the overall engagement on an annual basis.
 3. Approval of the financial statements is documented by the engagement practitioner or designee on the financial statement control sheet.

ENGAGEMENT QUALITY CONTROL REVIEW²²

POLICY

It is the Firm's policy to evaluate all engagements against criteria established by the Firm to determine whether an engagement quality control review should be performed and to perform an engagement quality control review for all engagements that meet those criteria. Engagement quality control reviews are completed before the report is released.²³ The Firm ensures compliance with this procedure by implementing the following procedures:

PROCEDURES

1. The Firm establishes criteria for performance of an engagement quality control review (EQCR) through consideration of the following²⁴:
 - a. The structure and nature of the Firm's practice.
 - b. The nature of the engagement, including the extent to which it involves a matter of public interest.
 - c. The identification of unusual circumstances or risks in an engagement or class of engagements.
 - d. Whether laws or regulations require an EQCR to be performed.
2. The Firm establishes a different set of criteria for each major type of service provided (i.e. compilations, reviews, audits, and attestation engagements). All engagements are evaluated against the established criteria. An EQCR is performed for all engagements that meet the established criteria. If no engagements meet the criteria established by the Firm for EQCR, no reviews are performed.

²² QC 10.38 – .45

²³ QC 10.38 – .40

²⁴ QC 10.A41

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 engagements, the Firm has concluded that an EQCR should be performed for all audit engagements that meet the following criteria:
 - a. First year (initial year engagements for new clients) on engagements with expected budgets in excess of 200 hours or \$26,000 in fees.
 - b. Any engagement with a budget in excess of 350 hours or \$45,500 in fees.
 - c. Engagements identified by the engagement partner as needing an EQCR based on criteria including, but not limited to, such items as unusual accounting treatment of transactions, or high-risk industry or similar indication, significant passed adjustments, or material proposed and recorded adjustments where management disagrees with the audit team's conclusions but agrees to record such adjustments to receive an unqualified report, significant differences of opinion among the engagement team, or engagements with a scope limitation report that were not intended to subject to such limitation. These criteria or any other such criteria are determined by the engagement partner at their discretion.
5. Reviews and compilations are not required to have an EQCR performed.
6. The Firm addresses the appointment of engagement quality control reviewers and establishes their eligibility by assessing:
 - a. the technical qualifications required to perform the role, including the necessary experience and authority for the circumstances of the engagement²⁵, and
 - b. the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.²⁶
7. The Firm recognizes the importance of maintaining the objectivity of the engagement quality control reviewer through the following procedures ²⁷:
 - a. While the engagement quality control reviewer is selected by the directors, when practicable, they are not selected by the engagement partner.
 - b. The engagement quality control reviewer does not otherwise participate in the performance of the engagement during the period of review.
 - c. The engagement quality control reviewer does not make decisions for the engagement team.
 - d. The engagement quality control reviewer is not subject to other considerations that would threaten the reviewer's objectivity.
 - e. The Firm replaces the engagement quality control reviewer when the reviewer's ability to perform an objective review is likely to have been impaired.

²⁵ QC 10.A48

²⁶ QC 10.42

²⁷ QC 10.43 – .44

8. 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. The performance of an EQCR does not reduce the responsibilities of the engagement practitioner.²⁸ Performing an EQCR includes the following procedures:
 - a. A review of selected engagement documentation to determine if the documentation reflects the work performed in relation to the significant judgments and supports the conclusions reached²⁹
 - b. Considering whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations³⁰
 - c. Considering the engagement team's evaluation of the Firm's independence in relation to the specific engagement³⁰
 - d. Reading the financial statements or other subject matter information and the proposed report³¹
 - e. An evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate³²
 - f. A consideration of the following matters³³:
 - i. Significant risks identified during the engagement and the responses to those risks
 - ii. Judgments made, particularly with respect to materiality and significant risks
 - iii. The significance and disposition of corrected and uncorrected misstatements identified during the engagement
 - iv. The matters to be communicated to management and those charged with governance and, when applicable, other parties, such as regulatory bodies
 - g. A discussion with the engagement practitioner about significant findings and issues³⁴
9. The Firm prepares appropriate documentation of the EQCR, including documentation that reflects³⁵:
 - 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.
10. If differences of opinion occur between the engagement practitioner and the engagement quality control reviewer, appropriate differences of opinion procedures are followed (see the

²⁸ QC 10.A45

²⁹ QC 10.41c and QC 10.A42

³⁰ QC 10.A42

³¹ QC 10.41b

³² QC 10.41d

³³ QC 10.A46

³⁴ QC 10.41a

³⁵ QC 10.45

Consultation and Differences of Opinion section of this QC document), and documentation of the resolution of conflicting opinions is finalized before the release of the report.³⁶

11. The EQCR may be conducted at appropriate stages throughout the engagement to ensure that significant issues may be resolved to the reviewer's satisfaction before the report is released.³⁷
12. The engagement practitioner may consult the engagement quality control reviewer at any stage during the engagement (for example, to establish that a judgment made by the engagement practitioner will be acceptable to the engagement quality control reviewer). Such consultation avoids identification of differences of opinion at a late stage of the engagement and does not necessarily impair the engagement quality control reviewer's eligibility to perform the role. When the nature and extent of the consultations become significant, the reviewer's objectivity may be impaired unless both the engagement team and the reviewer are careful to maintain the reviewer's objectivity. When this is not possible, another individual within the Firm or a suitably qualified external person may be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.³⁸
13. If the EQCR is completed after the report is dated and instances are identified where additional procedures are needed or additional evidence is required, then the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with the professional standards applicable to the engagement.³⁹
14. When the Firm does not have qualified personnel to perform the EQCR, the Firm contracts with qualified external individuals or other firms to perform the review. The criteria in Procedure 6 above are followed in selecting qualified external engagement quality control reviewers.

CONSULTATION AND DIFFERENCES OF OPINION⁴⁰

POLICY

The Firm will identify areas and special situations where consultation is required and will require personnel to refer to authoritative literature and practice aids and to consult, on a timely basis, with individuals within or outside the Firm when appropriate. It is the Firm's policy that all professional personnel seek appropriate consultation, on a timely basis, whenever difficult or contentious issues arise, including differences of opinion or uncertainty exists about the answer to a technical question. The Firm ensures compliance with this policy by implementing the following procedures:

PROCEDURES

1. All personnel are advised of our Firm's consultation policies and procedures.

³⁶ QC 10.A47

³⁷ QC 10.A44

³⁸ QC 10.A49

³⁹ QC 10.A43

⁴⁰ QC 10.37; QC 10.46 – .48

2. Certain areas or specialized situations may require consultation because of their nature or complexity. They may include the following:
 - a. Application of newly issued technical pronouncements
 - b. Industries with special accounting, auditing, or reporting requirements
 - c. Emerging practice problems
 - d. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made
 - e. 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
 - f. Filing requirements of regulatory agencies
 - g. Any engagement in which a qualified or nonstandard report is likely to be issued
 - h. Any engagement involving material litigation
 - i. Accounting for complex or unusual transactions
 - 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. Sufficient resources are available to enable appropriate consultation to take place. A technical reference library⁴¹ and access to online services is maintained to assist personnel in resolving problems. The directors or their designees periodically review the library contents and make necessary additions or changes. This is done when new materials become available and subscriptions come up for renewal.
4. Personnel are encouraged to seek advice from the audit services director⁴², tax services director or their designees when confronted with an unusual or complex situations. The director may then direct the personnel to a particular Firm member or reference for assistance.

Consultation with Sources Outside the Firm

5. When expertise is not available within the Firm, practice questions and problems are referred by the engagement practitioner to a correspondent Firm of CPAmerica International, Inc. or the AICPA to handle technical inquiries.⁴³ We have at our disposal the member firms of CPAmerica International, Inc. for consultation services. Inquiries of that group are channeled through the engagement practitioner or the audit services director.
6. The results of outside consultation are reviewed by the audit services director and the engagement practitioner before a decision is reached.

⁴¹ QC 10.74

⁴² QC 10.75

⁴³ QC 10.76

Documentation of Consultation

7. When consultations take place, the nature and scope of such consultations are documented and are agreed upon by both the individual seeking consultation and the individual consulted. In addition, conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented. Consultation documentation is to be prepared at the time that the situation is encountered and is filed with the engagement work papers.

Differences of Opinion

8. If a difference of opinion occurs within the engagement team; with those consulted; and, when applicable, between the engagement partner and the engagement quality control reviewer, that difference should be resolved using Procedures 4 through 7 listed above, if possible. If not, the matter should be brought to the attention of the managing director. The managing director (with the assistance of other practitioners or regulatory entities if desired) will resolve the dispute regarding the proper course of action to be taken by the Firm on the issue in question.⁴⁴

The conclusion reached to resolve the matter subject to a difference of opinion and how that conclusion was implemented should be documented in a memorandum to be filed with the engagement work papers. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion reached after appropriate consultation may document his or her disassociation from the resolution of the matter. The Firm will not release the report until any differences of opinion are resolved in such fashion and such documentation is placed in the engagement work papers.

⁴⁴ QC 10.78 –.79

MONITORING⁴⁵

It is the Firm's policy that the quality control system be monitored on an ongoing basis to evaluate the quality control system as a whole for the following:

- Adherence to professional standards and applicable legal and regulatory requirements
- Whether the system of quality control has been appropriately designed and effectively implemented
- 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.⁴⁶

Monitoring activities include engagement quality control review (EQCR), inspection, and post issuance review. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the Firm's QC system.

The policy and procedures relating to EQCR are addressed in the Engagement Performance section of this document. The retrospective monitoring activities performed by the Firm relate to inspection and post issuance review (collectively referred to as inspection/review) and are the primary activities addressed in these monitoring policies and procedures.

POLICIES

The Firm will consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures.

The managing director or designee with appropriate authority will be responsible for quality assurance. As an integral part of the monitoring process, inspection/review procedures are performed on all elements of the Firm's quality control system at least annually to determine whether the Firm has complied with applicable professional standards and its stated quality control policies and procedures.⁴⁷ The responsible person will obtain assurance that:

1. The Firm's quality control policies and procedures and its audit methodology remain relevant and adequate.
2. Personnel have been appropriately informed of their responsibilities for maintaining the Firm's standards of quality in performing their duties.
3. Revisions to policies and procedures that are ineffective or inappropriately designed are identified.
4. Necessary improvements to policies and procedures are made.

PROCEDURES

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

⁴⁵ QC 10.100 - 10.127

⁴⁶ QC 10.A63

⁴⁷ QC 10.100

1. At least annually, the managing director or designee selects an individual or team (hereafter referred to as the “inspector”) to perform inspection/review procedures on the Firm’s quality control system.⁴⁸ This process is planned, performed, and documented using guidance prepared by the AICPA or the appropriate monitoring checklist found in the practice aid section of PPC’s *Guide to Quality Control* as a work program. The monitoring procedures include a review of administrative records to assess compliance relating to QC elements other than engagement performance. The monitoring process will include a review of the governmental audit practice and each type of plan in the Firm’s ERISA employee benefit plan audit practice, if applicable, in accordance with the membership requirements of the respective audit quality centers.
 - a. A sample of engagements is selected annually from each practitioner’s client listing and is given a review by the reviewing director or by a staff member not otherwise associated with the engagement. A representative sample of engagements from all directors and professional staff with client responsibility should be selected.
2. The inspection of a selection of completed engagements may be performed on a cyclical basis.⁴⁹ For example, engagements selected for inspection may include at least one engagement for each engagement partner over an inspection cycle that spans three years. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following:
 - a. The results of previous monitoring procedures
 - b. The degree of authority of personnel
 - c. The nature and complexity of the engagement
 - d. The risks associated with the clients
 - e. The conclusions of a peer review or regulator inspection
3. The evaluation of the system of quality control may include matters such as⁵⁰:
 - a. Review of selected administrative and personnel records pertaining to the quality control elements
 - b. Review of engagement documentation, reports, and clients’ financial statements
 - c. Discussions with the Firm’s personnel
 - d. Determination of corrective actions to be taken and improvements to be made in the system, including providing feedback into the Firm’s policies and procedures relating to education and training
 - e. Communication to appropriate personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system
 - f. Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality and control policies and procedures
 - g. The appropriateness of the Firm’s guidance materials and any practice aids
 - h. New developments in professional standards and legal and regulatory requirements and how they are reflected in the Firm’s policies and procedures, when appropriate
 - i. Written confirmation of compliance with policies and procedures on independence
 - j. Continuing professional development, including training

⁴⁸ QC 10.104 – .112

⁴⁹ QC 10.A68

⁵⁰ QC 10.A64 – .A65

- k. Decisions related to acceptance and continuance of client relationships and specific engagements
 - l. Firm personnel's understanding of the quality control policies and procedures and their implementation
 - m. Reviews of the work or report when performed by engagement team members prior to the date of the report are not monitoring procedures.
4. At the conclusion of the inspection/review, the inspector is responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed and (b) discussing the results of the inspection/review with the 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.⁵¹ Once identified, the deficiencies are summarized and evaluated to determine whether:
- a. Appropriate competencies are being achieved for accounting, auditing, and attestation engagements.
 - b. Existing quality control policies and procedures should be modified.
 - c. Additional emphasis should be placed on specific industries or areas for future engagements.
5. The Firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection⁵²:
- a. Take 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.
6. At least annually, the Firm prepares and distributes a formal inspection/review report to all professional personnel involved in attest services.⁵² This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such procedures, and (c) the systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them.
7. In addition, the Firm is subject every three years to a peer review in accordance with the requirements of the AICPA and the Arizona State Board of Accountancy. The managing director or designee 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, if the Firm is then enrolled, and the AICPA Employee Benefit Plan Audit Quality Center, the engagement letter covering the Firm's peer review will require that the governmental audits and ERISA employee benefit plan audits selected for review during the Firm's peer review be reviewed by someone who is employed by a member Firm of the respective Center.

⁵¹ QC 10.113

⁵² QC 10.116

Also, information relative to the Firm's most recently accepted peer review is available to the public in accordance with the membership requirements of the respective Centers.

- b. The internal inspection/review results (including those specific to the Firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection/review) and monitoring communication are made available to the Firm's peer review team.
8. Based on the results of the Firm's annual inspection/review and, if appropriate, the results of the Firm's peer review, the managing director or designee determines any corrective actions that should be pursued to improve, amend, or revise the QC system.
 9. The directors meet annually (or more frequently as needed on an interim basis) and discuss the monitoring process, inspection/review findings, and corrective actions determined to be needed by the managing director and consider the implications for the Firm. A memorandum outlining the findings and recommendations is prepared and retained by the managing director or designee.
 10. The managing director or designee is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
 11. Complaints and allegations of noncompliance with the Firm's system of quality control may occur within or outside the Firm⁵³. The Firm will address such allegations by—
 - a. Establishing channels of communication for complaints and allegations and communicating such information to employees and clients.⁵⁴
 - b. Periodically reminding personnel during team meetings that any concerns regarding complaints or allegations may be communicated to the Firm without fear of reprisals
 - c. Investigating complaints and allegations, 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.
 - d. 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. Documentation includes⁵⁵:
 - a. Evidence of the monitoring procedures performed, including how engagements were selected for review.
 - b. Evaluation of the Firm's adherence to professional standards and regulatory and legal requirements.

⁵³ QC 10.120 – 10.124

⁵⁴ At present, the channel is maintained by reinforcing an 'open door' policy in which employees are encouraged to address any concerns with the audit or tax director or managing shareholder as necessary. Administrative staff has been trained to inform the managing shareholder and/or audit/tax director of any public complaints received by or forwarded to them.

⁵⁵ QC 10.125 – 10.126

- c. Evaluation of whether the QC system is appropriately designed and effectively implemented.
 - d. Evaluation of whether QC policies and procedures are operating effectively so that reports issued are appropriate in the circumstances.
 - e. Identification of noted deficiencies, an evaluation of their effect on the QC system, and the basis for determining what further actions are necessary, if any.
13. The Firm retains monitoring documentation for a time sufficient to allow those monitoring the QC system, including peer reviewers, to evaluate the Firm's compliance with its system. The Firm generally retains such documentation until the next peer review report has been completed.⁵⁶

⁵⁶ QC 10.127

APPENDIX

Personnel Classifications for Professional Staff:

The following provide general guidelines for the attributes and skills required for the staff levels established by the Firm.

<u>Classification</u>	<u>Approximate Experience</u>
Staff (Audit, Tax or Accounting) (I and II)	0 - 3 years
Senior (Audit Senior, Tax Senior or Senior Accounting Staff) (I and II)	2 - 5 years*
Supervisor (Audit, Tax or Accounting)	5 - 7 years**
Manager (Accounting, Tax or Audit)	5 - 10 ⁺
Partner	10 ⁺

*Non-licensed staff may continue at this level.

**Normally the highest level position of a non-CPA professional.

Staff Accountant (I and II) –

- Assume responsibility for less-complex unaudited financial statement engagements, or preparation of sales tax, property tax and payroll tax returns
- Perform segments or portions of larger audit engagements and accounting assignments
- Prepare individual, business, and trust tax returns under the supervision of more experienced staff
- Become familiar with Firm policies and procedures, the rules, regulations and code of ethics of the AICPA and the Arizona State Board of Accountancy
- Become familiar pronouncements issued by standards setting bodies. Gain knowledge of tax code and corresponding regulations
- Progress professionally by pursuing additional credentials, such as passing the Uniform CPA exam
- Perform basic accounting and/or tax research

Senior (I and II)/Supervisor –

- Assume full responsibility for the supervision of unaudited financial statement engagements, less-complex audits, and tax return preparation engagements
- Prepare budgets and work programs, and review and analyze internal controls
- Train and supervise staff assistants
- Recognize in advance potential problem areas on engagements
- Work on major areas of accounting and/or tax research
- Pass the CPA exam and be actively completing license requirements
- Review less complicated tax returns
- Review accounting and audit work papers to provide feedback to staff in training Draft financial statements, including note disclosures
- Work on tax controversy items, including research and resolution of tax agency contact with taxpayers

Manager –

- Plan and supervise assigned engagements as well as assist in administrative functions of the office
- Assist the partners in the development of new practice opportunities
- Assume full responsibility for large audits and/or tax assignments falling within his/her expertise
- Supervise the assignment of duties to, and the training of, personnel assigned to the engagement
- Supervise and manage a number of engagements at one time
- In connection with engagements, be responsible for personnel scheduling, compliance with due dates, and monitoring time budgets
- Adequately review all working papers and the completed reports and/or returns to ascertain that they meet Firm standards
- Resolve the majority of problems prior to the submission of the report and/or returns for final managing partner review and to ascertain that such reports/returns meet Firm standards
- Communicate Firm policies and technical information to personnel through individual or group meetings
- Motivate and assist staff in their professional development
- Represent the Firm in professional and service organizations
- Develop the Firm's reputation and her own through writing articles, blog posts, conducting seminars, public speaking and similar activities
- Begin to assume role of practitioner-in-charge (PIC) as appropriate
- Draft financial statements, Single Audit reports and all letters to management and those charged with governance
- Perform a review of the work papers to ensure proper referencing and support
- In connection with engagements, be responsible for compliance with all due dates and other deadlines
- Resolve the majority of problems prior to the submission of the report for final partner review to ascertain that financial statements and reports meet Firm standards
- Communicate Firm policies and technical information to accounting and auditing personnel through individual or group meetings
- Represent the Firm in presenting financial statements and other reports to clients, as well as involvement in professional and service organizations

Director (PIC) –

- Assume ultimate responsibility for all assigned engagements
- Train and mentor all staff and administrative personnel
- Perform assigned administrative duties
- Participate in civic and community activities