

Reilly, Penner & Benton LLP
Quality Control Document
January 2019

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

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

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

It is the firm's policy to adhere to all applicable unconditional and presumptively mandatory requirements of SQCS No. 8, *A Firm's System of Quality Control*, as evidenced by the policies and procedures within this quality control document. Any questions, concerns, or recommendations about the firm's quality control system should be communicated to the firm's partners.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

It is the firm's policy to promote a culture of quality that is pervasive throughout the firm's operations through the development of its system of quality control. Firm management, under the direction of the firm's partners, assumes responsibility for the firm's system of quality control and designs the system to (1) emphasize the importance of performing work that complies with professional standards and applicable legal and regulatory requirements and (2) issue reports that are appropriate in the circumstances. In maintaining a culture of quality, the firm emphasizes the importance of ethics and integrity in every decision that personnel make, particularly at the engagement level. The firm ensures compliance with this policy by implementing the following procedures:

- 1) The firm dedicates sufficient and suitable resources to its quality control system and quality initiative and assigns the operational responsibility for the firm's quality control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary QC policies and procedures based upon their comprehensive understanding of SQCS No. 8. The firm 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 training sessions.
- 2) The partners evaluate client relationships and engagements to ensure that commercial considerations are not placed ahead of the firm's commitment to quality control. Additionally, the firm's performance evaluation, compensation, and advancement policy and procedures (covered in the human resources QC document) do not place commercial considerations ahead of the quality of work performed.

- 3) The firm's partners demonstrate the importance of quality by their actions.
- 4) The engagement partner assumes responsibility for the overall quality of each audit engagement to which he or she is assigned and sets an appropriate example throughout all stages of the engagement for the other engagement team members to follow.
- 5) The firm establishes a formal code of conduct that reflects the firm's core value of quality and guides personnel to make appropriate decisions throughout their workday. The code of conduct is regularly communicated and reiterated to all employees and is posted in various common areas throughout the office.
- 6) The firm establishes and maintains a positive work environment by combining the firm's quality objectives with the personnel's needs to be valued and appreciated.
- 7) The firm rewards personnel who demonstrate a commitment to quality through its performance evaluation, compensation, and advancement system, as covered in the human resources QC policies and procedures.
- 8) The firm does not allow unethical behavior to occur unchallenged and addresses instances of noncompliance with the firm's quality control system through swift disciplinary action or, in extreme cases, termination of the offending employee.
- 9) At least annually, the quality control director reviews the firm's leadership responsibilities for quality within the firm policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

RELEVANT ETHICAL REQUIREMENTS

It is the firm's policy that all professional personnel be familiar with and follow relevant ethical requirements of the AICPA, contained in the *Code of Professional Conduct*, the State of Wisconsin Department of Safety and Professional Services, and the State of Wisconsin CPA Society 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, including any that may be more restrictive. Any transaction, event, circumstance, or action that would impair independence or violate the firm's relevant ethical requirements policy on an audit, attestation, review, compilation, or other service subject to the standards of the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee (as required under Rules 201 and 202) is prohibited. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats, but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach exists. The firm takes appropriate action to eliminate threats to independence or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach.

Although not necessarily all-inclusive, the following are considered to be prohibited transactions and relationships:

- 1) Investments by any partner or professional employee in a client's business during the period of a professional engagement, including a commitment to acquire any direct or material indirect financial interest in a client.

- 2) An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors, or any partner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property:
 - a) An individual on an attest engagement team.
 - b) An individual in a position to influence the attest engagement by doing any of the following:
 - i) evaluating the performance or recommending the compensation of the attest engagement partner,
 - ii) directly supervising or managing the attest engagement partner and all of that partner's superiors,
 - iii) consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or
 - iv) participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
 - c) A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
 - i) the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
 - ii) he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
 - d) A partner in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
 - e) The firm and its employee benefit plans.
- 3) Borrowing from or loans to a client, or client's personnel during the period of a professional engagement by any of the individuals listed in items 2. a.–e., except as grandfathered or permitted.
- 4) Accepting or offering gifts or entertainment from or to a client unless reasonable in the circumstances and approved by the firm's partners.
- 5) Certain family relationships between professional personnel and client personnel. (Consult the firm's partners for a ruling on such relationships.)

Notwithstanding the preceding policy and list of prohibited transactions and relationships, at the firm's partners' discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional standards.

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

- 1) All personnel have ready access to the relevant ethical requirements to which the firm is subject. Those requirements include the AICPA *Code of Professional Conduct*, the State of Wisconsin Department of Safety and Professional Services, and the State of Wisconsin CPA Society ethical requirements. The firm maintains a current copy of those ethical requirements in the firm's library

and personnel also have online access to the information. The firm expects its personnel to be familiar with those relevant ethical requirements.

- 2) All professional personnel who work on accounting and auditing engagements and are required to be independent sign a representation when hired and annually thereafter acknowledging their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. The representation also lists known circumstances and relationships, if any, that may create a potential threat to independence or violate the firm's relevant ethical requirements policy. (Each individual keeps a copy of his or her representation, which includes the professional standards of relevant ethical requirements that govern the firm. Professional standards, including the AICPA's *Conceptual Framework for AICPA Independence Standards*, and the advice of the ethics partner are consulted if an employee is unsure if a threat to independence should be reported to firm management.)
- 3) All professional personnel review the firm's current client list in conjunction with completing the representation letter for identification of threats to, or breaches of, independence. The current client list is maintained by the firm's Office Manager and changes to the list are communicated on a timely basis by a memorandum from the ethics partner. When hired (and annually thereafter), all professional personnel are required to sign a representation, as stipulated in Procedure 2 above, that confirms this responsibility.
- 4) To ensure that independence is properly addressed at the engagement level, as part of the acceptance and continuance decision, the engagement partner obtains and considers relevant information about the engagement and evaluates circumstances and relationships that could cause a potential threat to independence, if any. In addition, for audit engagements, the engagement partner forms a conclusion on compliance with independence requirements. In evaluating potential independence threats, 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 forms in the accounting and auditing manuals used by the firm contain steps requiring an evaluation of independence on each new and recurring engagement. Furthermore, those manuals contain reporting guidance for the types of engagements where a lack of independence is allowed.
- 5) All professional personnel remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the engagement partner and the designated ethics partner or quality control director of any circumstances or relationships that may create a potential threat to independence (such as a potential prohibited transaction) or an independence breach, so that appropriate action can be taken.
- 6) If a potential threat to independence is identified, the ethics partner accumulates and communicates relevant information to appropriate personnel so (a) firm management and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) current independence information can be maintained. For clients of whom the firm is not independent, only compilation services are performed and the firm discloses the lack of independence in its accountant's compilation reports for those clients.
- 7) If performing a group audit, the firm is required to obtain a written representation regarding the component auditor's independence with respect to the client. The auditing manuals used by the firm contain examples of representation letters to use in such situations. Furthermore, in a review or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by the firm contain steps to ensure compliance with this procedure.

- 8) The engagement partner (or the accountant in charge under the partner's supervision) has the primary responsibility for determining if there are unpaid fees on any of his or her clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement partner's knowledge of unbilled fees should be considered in making this determination. In addition, the firm's partners have secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
- 9) The engagement partner has the primary responsibility to identify all nonattest services performed for an attest service client and for determining if such nonattest services threaten independence with respect to that 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 (nonaudit) services impair independence under the independence rules in *Government Auditing Standards and the PCAOB standards*. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure. Additionally, due to the additional independence standards related to PCAOB engagements additional CPE courses related to independence are required for individuals assigned to PCAOB engagements.
- 10) The engagement partner has the primary responsibility for determining whether actual or threatened litigation has an effect on the firm's independence with respect to the client. The firm's independence could be impaired by litigation (a) between the client and the firm, (b) with the client company's securities holders, and (c) from other third parties.
- 11) If the firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If the firm is engaged as principal auditor to report on a major fund, non-major governmental and enterprise funds, internal service fund, fiduciary fund, or blended component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the firm reports on. The engagement partner has the primary responsibility for determining whether the firm's relationship with entities in the governmental financial statements has an effect on independence.
- 12) The firm's partners have the primary responsibility for determining whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.
- 13) The firm's partners are responsible for monitoring the firm's independence of attest clients at which partners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.
- 14) The firm's partners are responsible for obtaining the representation letters, reviewing them for completeness, and accumulating relevant information relating to identified threats to relevant ethical requirements matters (including questions from the representation letters and those from other sources). In determining a resolution, firm management considers the AICPA's *Conceptual Framework for AICPA Independence Standards* and, when necessary, consults the AICPA or the State of Wisconsin CPA Society for assistance in interpreting independence, integrity, and objectivity rules. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent workpaper files. Firm management is also responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, requiring additional training, drafting a reprimand letter, or even termination.

- 15) If a breach of independence is identified, the breach and the required corrective actions are promptly communicated to (a) the quality control director, (b) the engagement partner, who (along with the firm) needs to address the breach, and (c) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the quality control director when required corrective actions related to the independence breach and noncompliance with these policies and procedures have been taken.
- 16) At least annually, the quality control director with the assistance of the ethics partner reviews the firm's relevant ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

It is the firm's policy that, for all compilation, review, audit, and attestation engagements, the acceptability of the client and the engagement be evaluated before the firm agrees to provide professional services. The firm will accept and continue only client relationships and specific engagements when it has determined that the requisite competence and capabilities (including adequate time and resources) exist within the firm to perform the engagement and the firm can comply with legal and relevant ethical requirements. Additionally, the firm will only undertake or continue relationships and engagements when the firm has considered the integrity of the client and does not obtain information indicating that the client lacks integrity. The firm ensures compliance with this policy by implementing the following procedures:

- 1) For each prospective client that requests for the first time a compilation, review, audit, or attestation service, the partner making initial contact with the client is required to complete an engagement acceptance form. (The engagement acceptance form is located in the accounting and auditing manuals used by the firm.) That form documents, among other things, background information, including financial information regarding the client and its operations; an assessment of the apparent integrity of management or its officers based on contacts or discussions with others; possible independence problems or conflicts of interest; an assessment of the firm's competence, capabilities, and resources; and the results of communications with the client's prior accountants (if applicable).
- 2) For existing attest clients, a committee of partners annually reviews the firm's client list and reevaluates the acceptability of each client and engagement. Furthermore, the engagement work programs used by the firm (as documented in the engagement performance QC element of the firm's QC document) contain steps requiring the engagement team to consider whether the firm should discontinue providing all or certain services to a client. In making the continuance decision, the firm considers whether any significant issues or new information has arisen during the course of the relationship with the client and how such issues or information affects the ongoing client relationship. Generally, reasons that might surface in either the firm wide or individual engagement review that would cause the firm to consider discontinuing services if the information had been available earlier include the following:
 - a) Significant changes in the client and its operations, such as retirement of senior management, other ownership changes, a decline in the perceived integrity of management, a change in the nature of the client's business, or a decline in financial stability; or specific risks associated with the particular engagement.
 - b) Changes in the nature or scope of the engagement, including requests for additional services the firm may not be adequately prepared to render.
 - c) Significant changes in the composition of the firm, such as a change in the firm's professional competence (expertise) in a particular industry.
 - d) Significant unpaid fees that may cause an independence problem or create doubt about the collectability of future fees.
 - e) The existence of conditions that would have caused the firm to reject the client or engagement had such conditions existed at the time of the initial acceptance.

- f) The client is in the development stage or operates in a highly specialized or regulated industry (such as a financial institution, governmental entity, or employee benefit plan) that poses undue risk to the firm.
 - g) More time and resources are needed to perform the engagement than the firm has available.
 - h) The client has ignored prior firm recommendations, such as recommendations regarding the interpretation of accounting standards or the correction of internal control deficiencies. A committee of partners is responsible for deciding whether to discontinue providing all or certain services to a client.
- 3) The firm's partners or the engagement partner documents how issues identified during the acceptance and continuance process, if any, were overcome and resolved so that the firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusions, and the basis for the conclusions.
- 4) If situations occur after the commencement of an engagement and while work is in process that indicate the firm should consider withdrawing from the engagement, the firm's partners is notified of the circumstances. In that situation, the firm considers whether there are any professional, regulatory, or legal requirements for the firm to remain associated with the client and the engagement or to report the withdrawal to regulatory authorities. In addition, the firm considers whether withdrawing from the engagement or discontinuing the client relationship is appropriate. Circumstances that may cause the firm to withdraw include:
- a) An identified independence threat that cannot be mitigated by applying safeguards.
 - b) The client's unwillingness to make a material correction to the financial statements or accept a modified report, or when a modification of the standard report will not adequately indicate the deficiencies in the financial statements taken as a whole.
 - c) Failure by the client to take remedial action with regard to an illegal act that might be discovered during the engagement.
 - d) The discovery of facts after the engagement commences that may have caused the firm to reject the engagement, had those facts been known prior to starting the work, e.g., a significant risk of fraud or significant deficiencies in the entity's internal control.
 - e) The client provides information that is incorrect, incomplete, or otherwise unsatisfactory and refuses to provide additional or revised information.
 - f) The inability to perform the inquiry and analytical procedures considered necessary for a SSARS or attest review, and, for a SSARS review, it is inappropriate to issue a compilation report.
 - g) The client's refusal to provide a representation letter in an audit or a SSARS or SSAE review and, for a SSARS review, it is not appropriate to issue a compilation report.
 - h) In an SSAE review engagement, the client is the responsible party and does not provide a written assertion.
 - i) Other information in a client-prepared document containing the firm's attest report is materially inconsistent with the information in the report, and the client does not revise the information to eliminate the inconsistency.
- 5) If, based on the facts and circumstances identified in performing procedures 2 and 4, the firm's partners conclude that the firm should discontinue providing all or certain services to a client or should withdraw from a current engagement, the engagement partner will determine how the client and those charged with governance should be informed about that decision. Furthermore, the partners will consider whether outside legal counsel should be consulted in making that decision. The engagement team will be notified by the engagement partner of the name of any client to which services are discontinued. Significant issues, consultations, conclusions, and the basis for the conclusions are documented when withdrawal from an engagement or from both the engagement and the client relationship occurs.
- 6) The engagement partner is responsible for ensuring that an engagement letter is obtained for each client. The engagement letter documents the firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed, as well as the identification of the engagement partner and his or her role.
- 7) For audit engagements, the engagement partner is responsible for—
- a) Becoming satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and specific audit engagements have been followed.

- b) Determining that the acceptance and continuance conclusions reached are appropriate.
 - c) When information is obtained that would have caused the firm to decline the engagement had such information been known initially, promptly communicating such information to the firm so that the firm and the engagement partner can take the necessary action.
- 8) If the firm discovers a potential conflict of interest during the acceptance and continuance decision, the firm's partners determine whether it is appropriate to accept or continue the engagement. If the engagement is accepted or continued, the ethical requirements under AICPA Interpretation No. 102-2, *Conflicts of Interest*, under Rule 102, *Integrity and Objectivity*, are considered, including whether a conflict of interest that might be perceived as impairing objectivity was disclosed and consented to by the client or other appropriate parties.
- 9) At least annually, the firm's partners review the firm's acceptance and continuance of client relationships and specific engagements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

HUMAN RESOURCES

Overall

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

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

Policies and procedures for each of these activities are described below. At least annually, the quality control partner reviews the firm's human resources policies and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

Recruitment and Hiring

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

- 1) Periodically, a committee of partners assesses the firm's personnel needs by considering, among other things, firm criteria such as ability to service clientele, anticipated growth, personnel turnover, individual advancement, workload, quality of life, and succession plans.
- 2) In fulfilling the firm's recruitment and hiring plans, the firm seeks to employ individuals with high levels of integrity, competence, intelligence, maturity, and motivation. In this regard, the firm normally hires college graduates for entry level staff positions whose academic training will enable them to take and pass the CPA exam. However, the firm may hire paraprofessionals who do not possess a college degree, but whose accounting experience and personal qualifications indicate a likelihood of adequate abilities. When recruiting experienced professionals, the firm prefers to hire

CPAs with three or more years of public accounting experience who demonstrate integrity, competence, maturity, motivation, and leadership ability.

- 3) Determination of the techniques to be used to recruit candidates and actual employment decisions will be made by the firm's partners. Other personnel who are involved in the recruitment and hiring process will be informed of the techniques to be used.
- 4) When evaluating a prospective employee, the firm considers, among other things, work experience, the candidate's grade point average and college course concentration in accounting and related courses (with more emphasis given to these for candidates who are new graduates), personal achievements, and personal interests. The degree to which college transcripts, work references, and other qualifications are investigated is left to the discretion of the designated recruiting partner.
- 5) The firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.

Determining Competencies and Capabilities

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

- 1) Periodically, a committee of partners assesses the competencies and capabilities of engagement partners to help assure engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that appropriate reports are issued in the circumstances. The following competencies and capabilities are assessed based on the characteristics of the particular client, industry, and service provided—
 - a) An understanding of the role of the firm's QC system and the *Code of Professional Conduct*.
 - b) An understanding of the performance, supervision, and reporting aspects of the service to be performed.
 - c) An understanding of the applicable accounting, auditing, and attestation professional standards, including those directly related to any special industries.
 - d) An understanding of applicable industries and each industry's organization and operating characteristics, sufficient to identify high or unusual risk areas and to evaluate the reasonableness of industry-specific estimates.
 - e) Proficiency and seasoned judgment in discharging assigned responsibilities.
 - f) An understanding of how an organization is dependent on or enabled by information technologies and how the information technology systems are used to record and maintain financial information.
 - g) Personal attributes, leadership qualities, and perspective on business issues.
- 2) The firm determines how engagement partners and other personnel can best obtain additionally needed competencies and capabilities.
- 3) Performance evaluations are conducted, at least annually, to determine the competencies and capabilities possessed by staff other than partners.

Assignment of Engagement Teams

It is the firm's policy that each engagement be supervised by an engagement partner with appropriate competence, capabilities, and authority. Additionally, all personnel assigned to engagements possess the necessary competence and capabilities to perform engagements that comply with professional standards and applicable legal and regulatory requirements and enable the firm to issue reports that are appropriate

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

- 1) In addition to assessing the engagement partner's competencies and capabilities (see the Determining Competencies and Capabilities section), a committee of partners clearly defines and communicates the responsibilities and authority of an engagement partner to that partner, and evaluates the partner's work load to ensure that he or she has the time to adequately perform the role.
- 2) The identity and role of the engagement partner are communicated to client management and those charged with governance through a written engagement letter.
- 3) In an audit engagement, the engagement partner obtains satisfaction that the engagement team (including any external specialists) meets the objective of the Assignment of Engagement Teams policy of the firm's Human Resources QC element.
- 4) Periodically, a committee of partners assesses the staffing (including partner assignments) requirements of each client and engagement and develops a partner and staff assignment plan. Any considerations that emerge from this assessment that affect the hiring plans of the firm are communicated to those responsible for recruitment and hiring. In making assignments, consideration is given to factors such as:
 - a) The engagement type, size, significance, complexity, and risk profile.
 - b) Special expertise and experience necessary for the engagement.
 - c) New or emerging professional standards and applicable legal and regulatory requirements that may affect the engagement.
 - d) Recent continuing education relevant to the service to be provided and, if applicable, the industry (for example, staff who have met the continuing education requirements of the GAO's *Government Auditing Standards*).
 - e) The timing and length of the engagement.
 - f) The continuity and periodic rotation of the staff.
 - g) Opportunities for on-the-job training.
 - h) Previously demonstrated competencies (including consideration of the results of monitoring, inspections, peer reviews, and recent performance evaluations).
 - i) Personnel availability and the involvement of supervisory personnel.
 - j) Situations where possible conflicts of interest, objectivity, or independence problems may exist, including, where applicable, circumstances where the assigned staff is not independent under *Government Auditing Standards*.
 - k) The extent of supervision each staff member needs.
 - l) Non-CPA partners cannot be ultimately responsible for any compilation, review, attestation, or audit engagement.

A copy of the staff schedule is circulated to all employees.

Professional Development

It is the firm's policy that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the AICPA, the State of Wisconsin Department of Safety and

Professional Services, the AICPA Governmental Audit Quality Center, the AICPA Employee Benefit Plan Audit Quality Center, the U.S. Government Accountability Office, and other regulatory agencies, if applicable; that all professional staff maintain an adequate awareness and understanding of current developments in professional standards; that all non-licensed professional staff work toward passing the CPA exam; and that all professional staff assist in the training and development of staff members under their supervision. The firm ensures compliance with this policy by implementing the following procedures:

- 1) Annually, the designated CPE partner assesses the firm's continuing professional education (CPE) needs and plans the firm's professional development (PD) program after considering, among other things, CPE activities that interest each professional; the number of hours and subject matter (which may include industry-specific, accounting and auditing, and ethics) needed by each professional to comply with the CPE rules governing the firm; each professional's level of experience, client responsibilities, and prior CPE training; new or emerging professional standards and regulatory and legal requirements; and the firm's needs for specialists or experts in a particular industry or service area.
- 2) The CPE partner monitors employee progress toward meeting the CPE plan.
- 3) Generally, only CPE alternatives that qualify for credit under the CPE rules that govern the firm will be considered when planning the firm's PD program. Such alternatives normally include seminars and conferences sponsored by the AICPA, state society, or other professional organizations; video training courses, satellite conferences, and webcasts; self-study courses, including online and Internet training; in-house seminars and programs; acting as an instructor, speaker, or discussion leader; university or college courses; and published books, articles, and CPE courses. Specifically, when CPE hours are to be fulfilled by in-house seminars, workshops, or discussion groups, each in-house program should comply with the following standards:
 - a) The program should maintain and/or increase the professional competence of participants.
 - b) The stated program learning objectives should specify the level of knowledge the participant should have attained or the level of competence he or she should be able to demonstrate upon completing the program
 - c) The education and/or experience prerequisites for the program should be stated.
 - d) Participants should be informed in advance of pertinent course information.
 - e) Only those participants with the appropriate level of education and/or experience should attend the program.
 - f) The program should be developed by an individual qualified in the subject matter and knowledgeable in instructional design.
 - g) Program materials should be technically accurate, current, and sufficient to meet the program's learning objectives.
 - h) Before program materials are used, they should be reviewed to the extent necessary by a qualified person(s) other than the preparer(s) to ensure the program is technically accurate, it is based on current professional standards, and it is sufficient to achieve the stated learning objectives.
 - i) The reviewer's technical competence and knowledge of instructional design should at least equal that of the developer.

- j) Instructors should be qualified with respect to both program content and teaching methods used.
 - k) The number of participants and physical facilities should be appropriate for the teaching method(s) specified.
 - l) Each program should include an effective means for evaluating quality.
- 4) Individuals who work on audits subject to the *Government Auditing Standards*, including planning, directing, performing audit procedures, or reporting, 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 audits and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book audits 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. In other words, everyone working on a Yellow Book audit has to meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book audit, or who do not spend at least 20% of their time annually on Yellow Book audits are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement.
 - 5) Individuals who work on engagements subject to PCAOB requirements will complete at least two hours of CPE every two years that relates directly to independence requirements. Individuals that are new to the engagements will be required to complete the CPE prior to the start of their participation in the PCAOB regulated engagement.
 - 6) In accordance with the membership requirements of the AICPA Governmental Audit Quality Center's membership requirements, the partner assigned firm wide responsibility for the quality of the firm's governmental audit practice meets both the 24-hour and 80-hour CPE requirements. That partner also participates in the annual Center sponsored webcast on recent developments in governmental auditing.
 - 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 meet the CPE requirements of the AICPA Employee Benefit Plan Audit Quality Center.
 - 8) To comply with the documentation requirements of the AICPA, the state board of accountancy, the U.S. Government Accountability Office, and other regulatory agencies for CPE credit, the firm maintains appropriate CPE records.
 - 9) Each professional is responsible for complying with applicable continuing professional education requirements to maintain technical competency. Accordingly, all professionals are encouraged to engage in self-development activities. To assist in this endeavor, the firm maintains a current library and circulates within the firm relevant information about new or emerging changes in professional standards and regulatory and legal requirements or business activities. All professionals are encouraged to bring to the attention of the firm's partners any news item that they believe should be circulated within the office.
 - 10) The firm recognizes the importance of on-the-job training and has adopted, as a part of the firm's engagement performance QC system, the use of work programs to assist professionals in performing their work. Also, as noted in the firm's QC system for assigning personnel, professionals are assigned to work on a variety of jobs and under different supervisors (to the extent practical) to maximize on-the-job training. Personnel with supervisory responsibility are reminded to be constantly aware of situations where they can provide on-the-job training.
 - 11) The firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in PD activities such as completing external professional

development programs, becoming members of professional organizations, serving on professional committees, writing for professional publications, and speaking to professional groups.

Performance Evaluation, Compensation, and Advancement

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

- 1) Personnel classification levels are used to designate experience, to evaluate individual performance, and to establish criteria for promotion and compensation. The various personnel levels and related performance criteria are kept in the employee handbook that is distributed to all employees and updated as needed.
- 2) In addition to the evaluation criteria enumerated in the employee handbook, each firm member will be evaluated on attributes such as, but not limited to, the following:
 - 1) Commitment to quality.
 - 2) Competency and technical knowledge.
 - 3) Integrity.
 - 4) Personal attitude.
 - 5) Analytical and judgmental skills.
 - 6) Communication skills.
 - 7) Leadership and training skills.
 - 8) Client relationships.
 - 9) Professional demeanor and appearance.
- 3) Firm personnel are provided copies of the performance evaluation, compensation, and advancement policy and procedures, which include the criteria for their compensation and advancement. The policy and procedures address performance, quality, adhering to ethical principles, and the consequences of failure to adhere to firm policies and procedures related to quality performance and ethical principles.
- 4) At least annually, or more frequently at the discretion of the engagement partner, professional staff is evaluated by their supervisors using evaluation forms. Comments and feedback obtained during these interviews, if any, are documented on the evaluation form, and the form is routed to the individual's personnel file. The counseling interview includes the evaluation(s) and may include other matters. A failure to adhere to firm policies and procedures related to quality performance and ethical principles may result in more training, additional time at the present level, or even dismissal for more egregious failures.
- 5) At least annually, and on an *ad hoc* basis if necessary, the partners meet as a committee to discuss advancement, compensation, and termination decisions. In considering advancement and compensation decisions, staff performance evaluations and progress within staff classifications are given great priority; however, economic conditions, such as profits and future growth potential, must also be considered in each decision.

ENGAGEMENT PERFORMANCE

Overall

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

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

Policies and procedures for each of those components of engagement performance are described below. At least annually, the quality control 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

It is the firm's policy that all compilation, review, audit, and attestation engagements be properly planned, performed, supervised, reviewed, documented, and reported or communicated in accordance with the requirements of professional standards, applicable legal and regulatory requirements, and the firm. In this regard, the procedures listed below are followed by all personnel assigned to those engagements:

- 1) The firm's engagement performance requires the use of certain practice aids.
- 2) The firm's practice aids used for its audit, attestation, and compilation and review engagements are available to all personnel on RIA checkpoint and in our various engagement template binders updated annually and maintained in Pfx-Engagement.
- 3) The responsibilities of the engagement partner and engagement team for implementing the firm's QC steps are indicated in the practice aids.
- 4) Certain steps in the firm's system of engagement performance QC steps are not applicable or are optional for some engagements. The engagement performance practice aids indicate the applicability of each step to the particular type of engagement.
- 5) The firm uses numerous checklists, work programs, report examples, and other practice aids to implement its engagement performance QC steps.
- 6) In audit engagements, the engagement partner takes responsibility for the direction, supervision, and performance of the audit engagement, ensuring that professional standards and applicable legal and regulatory requirements are complied with and the firm's policies and procedures are followed. The audit engagement partner also takes responsibility for review of the work performed in accordance with the firm's review policies and procedures, and, prior to issuing the auditor's report, determines that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.

- 7) The firm complies with time limits established by professional standards, and laws and regulations that address the assembly of final engagement files for specific types of engagements. For audit engagements, the firm assembles the final engagement files within 60 days of the report release date. For other attest engagements, the firm assembles the final engagement files within 60 days from the date the report is released.
- 8) The firm retains engagement documentation for a period of time sufficient to meet the needs of the firm, professional standards, and laws and regulations. Any uncertainties regarding the retention of engagement documentation are addressed by the firm's quality control director, with the assistance of firm legal counsel and insurance carriers, as appropriate.
- 9) The firm protects the confidentiality, custody, integrity, accessibility, and retrievability of engagement documentation through staff training regarding client confidentiality rules and adequate and appropriate controls over the custody, integrity, accessibility, and retrievability of the firm's engagement documentation.

The firm has adopted and integrated within its quality control system the use of PPC accounting and auditing manuals and 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 (1) requiring a higher level of performance or documentation than the minimum specifically required by our firm's QC policies and procedures, or (2) overriding the exercise of professional judgment.

Engagement Quality Control Review

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

- 1) The firm establishes criteria for performance of an engagement quality control review (EQCR). In establishing such criteria the firm considers—
 - a) The structure and nature of the firm's practice.
 - b) The nature of the engagement, including whether it involves a matter of public interest.
 - c) Whether unusual circumstances or risks have been identified relating to the engagement, engagement service type, or industry.
 - d) Whether laws or regulations require an engagement quality control review to be performed.
- 2) The firm establishes a different set of criteria for each major service provided (i.e., compilation, review, audit, and attestation engagements). All engagements are evaluated against the established criteria. An engagement quality control review is performed for all engagements that meet the established criteria. If no engagements meet the criteria established by the firm for EQCR, no reviews are required to be performed.
- 3) The firm periodically evaluates and makes changes to its EQCR criteria as needed based on changes in the structure and nature of the firm's practice.
- 4) Based on the current composition of the firm's accounting and auditing practice, the firm has concluded that engagement quality control review should be performed for all audit engagements listed below. Engagements other than those are not required to have engagement quality control review performed.

- a) All entities subject to PCAOB auditing standards.
 - b) New industries to the firm.
- 5) Performing an engagement quality control review includes the following procedures—
- a) Having a discussion with the engagement partner about significant findings and issues.
 - b) Reading the financial statements or other subject matter information and the proposed report.
 - c) Reviewing selected engagement documentation relating to the significant judgments of the engagement team and the conclusions reached.
 - d) Performing an evaluation of the conclusions reached in formulating the report and considering whether the proposed report is appropriate.
 - e) Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
 - f) Considering the engagement team's evaluation of the firm's independence in relation to the specific engagement.

The EQCR may be conducted at various stages throughout the engagement to ensure that significant issues are resolved to the reviewer's satisfaction before the report is released. The extent of the EQCR may depend upon, among other things, the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.

- 6) The firm prepares appropriate documentation of the engagement quality control review, including documentation that reflects—
- a) The procedures required by firm policies have been performed.
 - b) That the EQCR was completed before the report was released.
 - c) That the reviewer was not aware of any unresolved matters that would have caused him or her to believe that significant judgments the engagement team made and conclusions they reached were not appropriate.
- 7) The appointment of engagement quality control reviewers requires consideration of the technical qualifications necessary to perform the role (including the necessary experience and authority), and the degree to which an engagement quality control reviewer can be consulted during the engagement without jeopardizing the reviewer's objectivity. In selecting appropriate engagement quality control reviewers, the following criteria are followed—
- a) The engagement quality control reviewer is selected by the firm's partners.
 - b) The engagement quality control reviewer has sufficient and appropriate experience, technical expertise, and authority for the particular engagement to be reviewed.
 - c) Engagement quality control reviewers maintain appropriate ethical requirements, such as objectivity, due professional care, and independence. The engagement quality control reviewer satisfies the independence requirements relating to the engagement reviewed.
 - d) The engagement quality control reviewer does not make decisions for the engagement team or otherwise participate in the performance of the engagement except in a consulting role; for

example, the engagement partner may consult the engagement quality control reviewer during the engagement to establish that a judgment made by the engagement partner will be acceptable to the engagement quality control reviewer. Both the engagement quality control reviewer and the engagement team are careful to maintain the reviewer's objectivity.

- e) If the objectivity and/or continued eligibility of the engagement quality control reviewer come into question, the engagement partner will communicate the situation to the quality control director or the firm's partners. The engagement quality control reviewer will be replaced if the reviewer's ability to perform an objective review is likely to have been impaired.
- 8) For audit engagements for which the firm's EQCR criteria stipulate that an EQCR is required, if any, the engagement partner (a) determines that an engagement quality control reviewer has been appointed; (b) discusses with the engagement quality control reviewer the significant findings or issues that arose during the audit, if any; and (c) does not release the auditor's report until the completion of the EQCR.
- 9) When a firm does not have qualified personnel to perform the engagement quality control review, the firm contracts with suitably qualified external individuals or other firms to perform the review. The criteria in Procedure 7 are followed in selecting qualified external engagement quality control reviewers.
- 10) A second partner preissuance review will be required of the report and financial statements for all audits, reviews and compilations with disclosures.

Consultation and Differences of Opinion

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

- 1) The firm maintains or provides ready access to an adequate and up-to-date reference library that includes materials related to clients served and that should be consulted to assist professional staff in their research of technical issues.
- 2) While the firm recognizes that it is impossible to list all situations that might require referral to authoritative literature or other sources or that might require consultation, the following situations, due to their difficulty or contentiousness, may require consultation:
 - a) Any engagement in which a qualified or nonstandard report is likely to be issued.
 - b) Any engagement involving material litigation.
 - c) Application, for the first time, of new or complex technical pronouncements.
 - d) Industries with special accounting, auditing, or reporting requirements.
 - e) Accounting for complex or unusual transactions.
 - f) Emerging practice problems.
 - g) Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made.

- h) Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued.
 - i) Filing requirements of regulatory agencies.
 - j) Meetings with regulators at which the firm is to be called on to support the application of generally accepted accounting principles or generally accepted auditing standards that have been questioned.
- 3) If a difference of opinion arises within the engagement team or between the engagement partner and the engagement quality control reviewer, the issue is first discussed by the members of the engagement team and the partners. If the engagement partner and the engagement quality control reviewer agree that the issue is resolved at this level, additional consultation is not necessary. However, if any member of the engagement team disagrees with the resolution, Procedure 8 should be followed.
- 4) If the engagement partner or engagement quality control reviewer believes additional consultation is necessary, the issue is discussed with an individual in the firm who has appropriate knowledge, seniority, and experience for the issue in question. When the engagement team is unaware of the name of an individual in the firm who possesses such qualities, the quality control director is consulted for the name of such an individual. Those consulted with are given all the relevant facts that will enable them to provide informed advice. If, in the opinion of the engagement quality control reviewer, the issue is resolved at this level of consultation, additional consultation is not necessary. However, if any member of the engagement team or other individuals who consulted on the issue disagrees with the resolution, Procedure 8 should be followed.
- 5) If the engagement partner and/or engagement quality control reviewer believe that additional consultation beyond that available within the firm is necessary, the issue is discussed with an individual outside the firm who has relevant specialized expertise. Such outside individuals include, but are not limited to, the AICPA technical information services and CPAs in other firms. Those consulted with are given all the relevant facts that will enable them to provide informed advice. In determining the professional qualifications and reputations of the outside individuals, the firm considers, among other things, the following matters:
- a) The professional certification, license, or other recognition of the competence of the individuals in their areas of expertise, as appropriate.
 - b) The reputation and standing of the individuals in the views of his or her peers and others familiar with the individual's capability or performance.
 - c) The relationship, if any, of the individuals to the client.

If, in the opinion of the engagement quality control reviewer, the issue is resolved, additional consultation is not necessary. However, if any member of the engagement team or other individual in the firm who consulted on the engagement disagrees with the resolution, Procedure 8 should be followed.

- 6) Certain accounting, audit, or attestation engagements may require the firm to consult with nonaccounting or nonauditing specialists such as actuaries, appraisers, attorneys, engineers, and geologists. The firm follows the guidance in AICPA *Professional Standards* at [AU-C 620](#) when such consultations are necessary. If any member of the firm or engagement team disagrees with the advice of a nonaccounting or nonauditing specialist, Procedure 8 should be followed.
- 7) The nature and scope of consultations involving contentious or difficult issues are agreed upon by both the individuals seeking consultation and the individuals consulted. Such consultations are

sufficiently documented to facilitate understanding of the issue for which the consultation was needed, the results of the consultation, the decisions made and the basis for those decisions, and how those decisions were implemented. The conclusions resulting from the consultation are understood by both the individuals seeking consultation and the individuals consulted.

- 8) If a difference of opinion occurs within the engagement team, between the engagement partner and the engagement quality control reviewer, or with those consulted within or outside the firm, that difference is resolved using Procedures 3, 4, 5, and 6, if possible. If not, the matter is brought to the attention of the quality control director. The quality control director (with the assistance of other practitioners or regulatory entities, if desired) resolves the dispute regarding the proper course of action to be taken by the firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented are documented. The firm will not release the report until any differences of opinion are resolved. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion may document his or her disagreement with the resolution of the matter.
- 9) For audit engagements, the engagement partner is responsible for ensuring that appropriate consultation is undertaken on difficult or contentious matters. Additionally, the engagement partner ensures that (a) members of the engagement team follow the firm's consultation policies during the course of the engagement, (b) the nature and scope of the consultation are agreed upon with the party consulted, (c) the resulting conclusions are understood by the party consulted, and (d) such conclusions are implemented.

MONITORING

It is the firm's policy that the quality control system be monitored on an ongoing basis to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the elements of quality control are relevant, adequate, and operating effectively. Monitoring activities include engagement quality control review (EQCR), inspection, and postissuance review. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the firm's QC system. The policy and procedures relating to EQCR are addressed in the ENGAGEMENT PERFORMANCE section of this QC document. The retrospective monitoring activities performed by the firm relate to inspection and postissuance review (collectively referred to as *inspection/review*) and are the primary activities addressed in these monitoring policy and procedures.

As an integral part of the monitoring process, inspection/review procedures are performed on all elements of the firm's quality control system at least annually to determine whether the firm has complied with professional standards, applicable legal and regulatory requirements, and its stated quality control policies and procedures. The firm ensures compliance with this policy by implementing the following procedures:

- 1) At least annually, the firm's partners select a team to perform inspection/review procedures on the firm's quality control system. Individuals selected as monitoring team members possess adequate technical knowledge and experience and, when practical, are not directly involved in the administration, supervision, or performance of the QC procedures or engagements each will inspect/review. One monitoring team member is designated as the team captain. The inspection/review includes a review of the governmental audit practice and each type of plan in the firm's ERISA employee benefit plan audit practice in accordance with the membership requirements of the respective audit quality centers.
- 2) The team captain is responsible for determining the scope of the inspection/review, developing the inspection/review procedures, and performing the inspection/review. The firm's partners can require at his or her discretion that the inspection/review scope and procedures be approved by him or her before the inspection/review commences. The team captain follows the guidelines listed below when determining the scope and the inspection/review procedures:
 - a) The inspection/review is completed timely.

- b) The monitoring team uses the appropriate monitoring checklists in *PPC's Guide to Quality Control* as a work program. The inspection covers all of the firm's stated quality control procedures and includes a representative sample of administrative files, personnel files, engagement workpapers, and other documentation. The inspection engagement reviews will include a cross-section of the firm's engagements. The criteria for engagement selection may include, but are not limited to, the following:
- i) A cross-section of the firm's governmental audit practice considering the number and types of governmental audits (e.g., single audits and program-specific audits, as defined under the Uniform Guidance, and other compliance audits and attestation engagements performed under various federal, state, or local agency audit guides).
 - ii) A cross-section of the firm's ERISA employee benefit plan audit practice considering each of the types of plan audits (e.g., defined benefit, defined contribution, health and welfare, multiemployer, ESOPs, limited and full scope) and the numbers of each in the practice.
 - iii) A cross-section of the firm's FDIC Improvement Act of 1991 (FDICIA) audit practice, which encompasses federally insured depository institutions with \$500 million or more in total assets at the beginning of the fiscal year.
 - iv) A cross-section of the firm's broker-dealer practice considering the number and types of broker-dealer audits (carrying and non-carrying). (At least one carrying broker-dealer will be selected, if applicable.)
 - v) A cross-section of the firm's service organization control engagements (SOC 1 and SOC 2 engagements).
 - vi) A cross-section of the firm's issuer audits and other engagements performed under PCAOB standards.
 - vii) Other specialized, complex, and high-risk engagements (for example, insurance companies and financial institutions not subject to FDICIA requirements).
 - viii) First-year engagements.
 - ix) A cross-section of engagements based on the level of service performed (e.g., audit, review, compilation, and attestation).
 - x) A cross-section of engagements from various partners and management level personnel having accounting and auditing responsibilities.
 - xi) Significant client engagements.
 - xii) Engagements for which there have been complaints or allegations from firm personnel, clients, or other third parties that the work performed by the firm failed to comply with professional standards, applicable legal and regulatory requirements, or the firm's system of quality control.
 - xiii) Engagements involving complex issues requiring consultation.
 - xiv) Engagements in which there were significant disagreements among team members or between the engagement quality control reviewer and the engagement partner.
- c) The inspection/review procedures include inspection, observation, and inquiries to determine whether:

- i) The firm's guidance materials and practice aids are appropriate and checklists, forms, programs, or other documentation required by the firm's QC system have been properly completed.
 - ii) Administrative and personnel policies have been complied with and are appropriately documented.
 - iii) Procedures performed on engagements are in accordance with the requirements of professional standards, applicable legal and regulatory requirements, and firm policies.
 - iv) The engagement workpapers provide adequate evidence to support conclusions, opinions, and presentations resulting from that engagement.
 - v) The financial statements, reports, and other presentations resulting from the engagements conform to the measurement, presentation, and disclosure requirements of professional standards and applicable legal and regulatory requirements.
- d) The inspection/review scope, procedures, and findings are documented in the work program.
- 3) At the conclusion of the inspection/review, the monitoring team is responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed, and (b) discussing the results of the inspection/review with the engagement partners and other appropriate personnel responsible for each of the engagements selected for review and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagements. Once identified, deficiencies are summarized and evaluated to determine whether:
 - a) Existing quality control policies and procedures should be modified.
 - b) Additional emphasis should be placed on specific industries or areas for future engagements.
 - c) Any deficiencies noted in the monitoring team's communication affect other audit engagements (as determined by the engagement partners).
- 4) The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection/review:
 - a) Take appropriate remedial action directed toward the individual engagement or person.
 - b) Revise the firm's quality control policies and procedures.
 - c) Discipline individuals who failed to follow the firm's QC policies and procedures.
 - d) Communicate the findings to those responsible for training and professional development.
- 5) If the monitoring results reveal that an issued report is inappropriate or that procedures were omitted during the performance of the engagement, the firm determines what further actions are required to comply with relevant professional standards and applicable legal and regulatory requirements. Depending upon the specific situation, the firm may obtain legal advice.
- 6) At least annually, the firm prepares and distributes a formal monitoring report to engagement partners, the firm's partners, and the committee of partners. This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such procedures, and (c) any systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them. Audit engagement partners consider whether any deficiencies noted in the monitoring team's communication may affect their audit engagements.

- 7) In addition to the firm's inspection/review and other monitoring procedures, the firm is subject every three years to a peer review in accordance with the requirements of the AICPA and the State of Wisconsin. The quality control partner is responsible for scheduling and coordinating that review. The firm elects to have its peer review count as its inspection for each year in which a peer review is performed.
 - a) In accordance with the membership requirements of the AICPA Governmental Audit Quality Center and the AICPA Employee Benefit Plan Audit Quality Center, the engagement letter covering our peer review requires that the governmental audits and ERISA employee benefit plan audits selected for review during the firm's peer review are reviewed by someone who is employed by a member firm of the respective Center. Also information relative to the firm's most recently accepted peer review is available to the public in accordance with the membership requirements of the respective Centers.
 - b) The internal inspection/review results (including those specific to the firm's governmental audit engagements and ERISA employee benefit plan audit engagements selected for inspection/review) and annual monitoring communication are made available to the firm's peer review team.
- 8) Based on the results of the ongoing monitoring of the QC system, the firm's annual inspection/review, the monitoring communication, and, if appropriate, the results of the firm's peer review report, finding for further consideration form(s), letter of response, and exit conference with the (peer) reviewer, a committee of partners determines any corrective actions that should be pursued to improve, amend, or revise the QC system.
- 9) The partners meet annually during the partners' retreat (or more frequently as needed on an interim basis) and discuss the monitoring process, the results of the inspection/review, and the corrective actions determined to be needed by the committee of partners and consider the implications for the firm.
- 10) The quality control director is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
- 11) The firm's partners periodically remind personnel during staff meetings that any concerns regarding complaints or allegations may be communicated to the firm without fear of reprisal. The firm is particularly interested in complaints and allegations about the firm's noncompliance with professional standards, applicable legal and regulatory requirements, or the firm's system of quality control. The firm appropriately addresses complaints and allegations by—
 - a) Establishing channels of communication for complaints and allegations through the firm's website and communicating that information to employees and clients.
 - b) Investigating complaints and allegations and involving legal counsel if considered necessary. The firm assigns partners to this process who are trained and knowledgeable about firm procedures and who are not otherwise involved in the engagement relating to the complaint or allegation.
 - c) Documenting all complaints and allegations.
- 12) The firm documents the performance of each element of its QC system on an ongoing basis, as well as in conjunction with documenting its monitoring of the system.
- 13) The firm retains documentation evidencing the operation of its QC policies and procedures for a time sufficient to allow those monitoring the QC system, including peer reviewers, to evaluate the firm's compliance with its system. The firm generally retains such documentation until the next peer review report has been completed. Documentation includes—

- 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.
- 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 deficiencies noted an evaluation of their effect on the QC system, and the basis for determining what further actions were necessary, if any.