

BKR Yarel + Partners

Quality Control Document

June 2006

**Statement of Firm Policy**

***The Firm and its objectives***

*BKR Yarel + Partners is a partnership engaged in the practice of public accounting.*

*We have, as an overriding objective, the provision of high quality audit, accounting, tax, and advisory services to clients in the best professional manner. Our partners and staff are expected to comply with this statement of philosophy in order to achieve that objective.*

*“Professionalism” in the accounting profession means integrity, objectivity, independence where required, adherence to professional standards and applicable laws and regulations, and a demonstrated will to maintain and improve the quality of professional services and to withstand all pressures, competitive and otherwise, to compromise on principles, standards and quality. In the field of auditing, particularly, professionalism requires an understanding of and dedication to the public interest.*

*The public interest in audited financial statements has placed the public accounting profession in the position of public trust. Moreover, there’s also a significant public interest in the way in which the Firm carries out accounting, tax and advisory services. Therefore, no client or Firm consideration is allowed to interfere with our ability to carry out our commitment to professionalism.*

***Professional Performance***

*BKR Yarel + Partners demands integrity, objectivity, competence, and due care from all of its personnel in the conduct of all of its engagements, whatever their nature. We demand independence in fact and appearance in all audit and other engagements where independence is required by applicable laws and regulations and the requirements of professional societies. We take steps to ensure that personnel assigned to engagements, whatever their nature, have the professional and specialized knowledge required to carry out their responsibilities; at the same time we recognize that supervisors and other reviewers and consultants can complement that knowledge.*

*Our firm is structured to provide leadership in achieving high quality professional performance while maintaining the concept of individual responsibility so necessary to clients and to individuals within the Firm. BKR Yarel + Partners has established policies and procedures that we believe provide assurance that professional engagements are properly planned and executed and that decisions are based on the substance of issues, not on form. Accounting standards cannot deal with all [possible] situations, and we at all times urge our clients to adopt accounting and reporting policies that we believe are the most appropriate in the circumstances.*

*Our policies and procedures provide, among other things, for consultation on significant matters, and BKR Yarel + Partners has designated partners of the Firm whose opinions are to be sought on significant ethical, technical and industry specific questions. The policies and procedures we have established are designed to assure that our clients receive the best professional services we can provide and that in providing those services, we continually keep in mind the public interest in our work. We expect our partners and staff to identify and resolve all important issues relevant to an engagement.*

*More specifically, to achieve high quality professional performance and to comply with the membership requirements of the Israeli Institute of Public Accountants, BKR Yarel + Partners has adopted policies and procedures that implement the quality control standards for the conduct of accounting and auditing engagements established by the American Institute of Certified Public Accountants. Those policies and procedures relate to the following elements of quality control, among other matters:*

- a. *Independence, Integrity and Objectivity – To be impartial and free from financial, business, family and other relationships involving a client when required.*
- b. *Personnel Management – To have competent, properly motivated people of integrity involved in engagements. To select for advancement people who are capable of handling the responsibilities involved. To have people on the job with the technical training and competence required in the circumstances. To provide staff with the training needed to fulfill their responsibilities and keep them abreast of current developments.*
- c. *Acceptance and Continuance of Clients and Engagements – To anticipate problems and minimize the likelihood of association with client whose management lacks integrity. To accept only engagements we can complete with due professional competence.*
- d. *Engagement Performance – To have personnel seek assistance, when necessary, from competent authorities so that accounting or auditing issues are properly resolved. To determine that work is planned and carried out efficiently and in conformity with professional standards.*
- e. *Monitoring – To conduct an ongoing internal review to be sure that all the other elements of the quality control system are working.*

*We have also adopted appropriate policies and procedures in the above areas to guide the conduct of tax and advisory services engagements.*

*The adequacy of the Firm's quality control system for our accounting and auditing practice and our compliance with that system will be independently evaluated every three years through a peer review that will be conducted under the auspices of the Israel Accounting Standards Board. The peer review report will be available to our clients and other interested parties.*

### ***Relationship With Clients***

*The value of our services is, to a large degree, dependent on the public perception of our integrity and objectivity. If the public were to doubt our integrity or objectivity, or our competence or professional care as a result of our work for a given client, the value of our services to that client, to all other clients, and to the public at large, could drop significantly. Accordingly, just as our clients are selective in their choice of CPA firms, BKR Yarel + Partners is selective in accepting clients. Our responsibility to existing clients and to the public demand that we consider the appropriateness of client relationships and that we carefully consider the nature of services we are asked to provide and our ability to provide those services in a quality manner in conformity with all relevant professional standards.*

*When potential clients who disagree with their present auditors on significant auditing, accounting, or reporting questions, request our opinion on the matter, we consult within our Firm and with a potential client's present or predecessor CPA firm before giving our final conclusion on the matter.*

*We value our reputation for quality services and believe that reputation is the basis on which we attract new clients and build our practice for the future. We are committed to rendering value for our fees and believe our clients should have a reasonable basis for making that judgment for themselves. Accordingly, we carefully evaluate the services we are asked to provide and the factors, such as the nature of control systems and procedures, that will affect the costs we expect to incur in providing such services before we inform present and potential clients of the fees we estimate those services will entail. Once BKR Yarel + Partners undertake a client engagement, we bring all the resources to that engagement necessary in the circumstances.*

*We do not disclose to anyone outside of our firm any confidential client information obtained in the course of any engagement unless the disclosure is authorized by the client or is required to discharge properly our responsibilities under law or authoritative regulatory or professional standards. (Our peer reviews will*

*have access to client information, but they will be bound by the same standards of confidentiality).*

### ***Services Performed***

*BKR Yarel + Partners provides a full range of audit, accounting, tax, and advisory services, consistent with ethical and professional standards and regulatory requirements in Israel and with the limitations imposed by our Firm's membership in the Israeli Institute of Certified Public Accountants.*

*The services provided by CPA firms must be responsive to changes in the environment, which is affected by developments in information technology, and increasing complexity of tax laws and regulations, greater demands by the public for new types of information and CPA assurances on such information, the increasing need of many clients for advisory services, and a host of other factors.*

*If the public accounting profession as a whole, and BKR Yarel + Partners in particular, are to meet the legitimate and changing needs of clients and the public, arbitrary restrictions on the services provided are not appropriate. However, BKR Yarel + Partners, as a matter of policy, will undertake only engagements that we believe we can perform with competence, that will be useful to our clients or to appropriate third parties, that will not impair our independence in fact or appearance, when we also provide audit services to the client involved, and that will help attract and retain the personnel we need to provide the knowledge base essential to maintain our ability to serve our clients and the public in a professional manner. In evaluating proposed engagements, as well as the way we inform clients and others of our capabilities, we consider whether such engagements will lessen public confidence in our independence, integrity, and objectivity in the performance of the audit function or in our commitment to that function.*

## **INTRODUCTION**

*Statement of Auditing Standards No. 4, which was issued in 1974, first defined Quality Control and made it part of generally accepted auditing standards. In 1979, Statement on Auditing Standards No. 25 superseded SAS No. 4 and defined the relationship of generally accepted auditing standards to quality control standards as follows:*

*"Generally accepted auditing standards relate to the conduct of individual audit engagements; quality control standards relate to the conduct of a firm's audit practice as a whole. Thus, generally accepted auditing standards and quality control standards are related, and the quality control policies and procedures that a firm adopts may affect both the conduct of individual audit engagements and the conduct of a firm's audit practice as a whole."*

*Also, in 1979, Statement on Quality Control Standards No. 1 was issued SQCS No. 1 reiterated the nine elements of quality control established by SAS No. 4 and went on to define applicability as follows:*

*"Quality control for a CPA firm, as referred to in this statement, applies to all auditing and accounting and review services for which professional standards have been established. Although the provisions of this statement may be applied to other segments of a firm's practice, such as providing tax services or management advisory services, their applicability to those segments of practice is not prescribed by this statement, except to the extent that such services are a part of the above-mentioned auditing and accounting and review services."*

*In 1996, the AICPA Auditing Standards Board issued Statement on Quality Control Standards (SQCS) No. 2, "System of Quality Control for a CPA Firm's Accounting and Auditing Practice", and (SWCS) No. 3, "Monitoring a CPA Firm's Accounting and Auditing Practice". These Statements supersede SQCS No. 1, "System of Quality Control for a CPA Firm". SQCS No. 2 redefines a firm's accounting and auditing practice to include engagements performed under SSAEs issued by the Auditing Standards Board. SQCS No. 2 also combines the nine elements of quality control into five broad elements. The other currently effective quality control standards are: SQCS No. 4 (QC 20), System of Quality Control for a CPA Firm's Accounting and Auditing Practice (A Revision of Statement on Quality Control Standards No. 2, "System of Quality Control for a CPA Firm's Accounting and Auditing Practice"); SQCS No. 5 (QC 40), The Personnel Management Element of a Firm's System of Quality Control—Competencies Required by a Practitioner-in-Charge of an Attest Engagement; and SQCS No. 6, Amendment to Statement on Quality Control Standards No. 2, "System of Quality Control for a CPA Firm's Accounting and Auditing Practice."*

*This document contains the firm's quality control policies and procedures. The five elements of quality control are discussed in this document in individual sections under the following headings:*



*SECTION*

1. *Independence, Integrity and Objectivity*
2. *Personnel Management*
3. *Acceptance and Continuance of Clients and Engagements*
4. *Engagement Performance*
5. *Monitoring*

**INDEPENDENCE, INTEGRITY AND OBJECTIVITY**

**General**

*The Firm and all partners and professional staff are required to adhere to the independence rules, regulations interpretations, and rulings of the Israeli Institute of Certified Public Accountants.*

*For this section, the term "professional staff" includes all audit and tax staff, paraprofessionals, Chief Operating Officer, interns and other temporary professional employees.*

**Handling Questions**

*The Quality Control Committee collectively has the responsibility for resolving questions relating to independence matters and all partners are available to provide guidance to professional staff when required.*

*In resolving independence questions, the Quality Control Committee will first refer to the ethics rulings on independence, integrity and objectivity contained in each of the following document and staff (copies of which are available on-line):*

*AICPA Professional Standards - CCH on-line service.*

*Should the question not be resolved by reference to the above source, the Quality Control Committee is required to communicate with third parties for assistance in resolving the matter.*

*Regardless of the avenue taken to resolve the question (in-house or outside assistance), the partners) who initially become aware of any independence questions is responsible for having a memo documenting the circumstances and the resolution (Exhibit 1-3). This memo should be approved by the Quality Control Committee and should be retained by the Quality Control Committee in a file designated for Independence Matters.*

**Communication**

*All professional staff receives a staff manual which contains general discussion of the firm's Policy Memorandum (Exhibit 1-1) which discusses the firm's independence requirements in greater detail and advises the staff that they are expected to be familiar with all independence rules and regulations to which the firm is subject.*



*Our client list, which is currently updated, is reviewed by all professional staff and partners to insure that they are aware of those entities to which our independence policies apply. New clients of the firm are announced via email.*

*The firm's library contains professional literature relating to independence matters. All information is available on the CCH on-line system.*

### ***Monitoring Compliance***

*Independence confirmations are obtained annually as of December 31 from all professional staff and partners and upon employment from newly hired personnel (see Exhibit 1-2 for form of confirmation). It will be the Quality Control Committee's responsibility to ensure that all confirmations are obtained at this time.*

*Any questions arising out of the confirmation process should be handled in accordance with the procedures outlined above (Handling Questions).*

*Engagement partners are responsible for determining that independence requirements are met for each type of service provided to our clients. The Quality Control Committee is responsible for identifying the various types of services and for communicating the independence requirements for each.*

### ***Past Due Receivables***

*Accounts receivable from clients that are past due are reviewed monthly by the partners to determine whether any outstanding amounts have some of the characteristics of loans and may, therefore, impair the firm's independence.*

### ***Nonattest Services***

*The Quality Control Committee is responsible for communicating the requirements of and monitoring compliance with AICPA's Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services.*

*POLICY MEMORANDUM*

*SUBJECT: Independence Requirements*

*BKR Yarel + Partners Position*

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*The firm's requirements with respect to independence are derived primarily from Rules 101 and 102 of the Code of Professional Ethics of the AICPA, including the related interpretations and ethics rulings. These are included in AICPA Professional Standards, Volume II, which is available on-line by CCH service. In addition, consideration has been given to the Israeli Institute of Certified Public Accountant Regulations. The firm's independence policies and related procedures for administering these policies enumerated below are applicable to all professional staff.*

*Independence has traditionally been defined by the profession as the ability to act with integrity and objectivity. Integrity is an element of character which is fundamental to reliance on the opinion of the CPA. Objectivity refers to a CPA's ability to maintain an impartial attitude on all matters which come under his review. Independence must be maintained both in fact and in appearance where such independent is required by applicable professional standards. All professional staff members are required to attain a familiarity with the aforementioned independence-related rules and resolutions to which we are subject. Certain general categories of relationships or situations which could pose a threat to the integrity and objectivity of the auditor, in fact or in appearance, are listed below:*

- 1. Financial interest.*
- 2. Circumstances in which professional staff are virtually part of management or act as employees under management's control.*
- 3. Business relationships.*
- 4. Personal relationships.*
- 5. Contingent fee arrangements.*
- 6. Claims by client against the firm.*
- 7. Large, unpaid back professional fees.*
- 8. Arrangements with non-CPA-owned entities.*

*One example frequently encountered may be where our firm performs a substantial part of the accounting process, such as analyzing, journalizing, posting, preparing adjusting and closing entries, and preparing the financial statements, and later our firm performs an audit. In these instances in which we act as the main processor for transactions initiated by the audited or reviewed entity, but the audited or reviewed entity acknowledges responsibility for the financial records and financial statements, the independence of the auditor is not necessarily impaired*

*Interpretation 101-3 of the AICPA's Code of Professional Conduct lists the following additional guidance:*

- 1. The auditor must not have any relationship with the client or conflict of interest that would impair his integrity or objectivity.*
- 2. The client must accept the responsibility for the financial statements. When significant nonattest services are to be performed, documentation is required from the designated member of management responsible for financial reporting, that the client has agreed to: make all management decisions and perform all management functions, designate an individual who possesses suitable skill, knowledge and/or experience to oversee services, evaluate the adequacy and results of the services performed, accept responsibility for the results of the services, and establish and maintain internal controls, including monitoring ongoing activities.*
- 3. The auditor must not assume the role of an employee of management conducting company operations. For example, the auditor cannot consummate transactions, have custody of assets, or exercise authority on behalf of the client. The client must prepare the source documents on all transactions in sufficient detail to identify clearly the nature and amount of such transactions and maintain accounting control over data such as control totals and document counts processed by the auditor. The auditor should not make changes in such basic data without concurrence of the client.*

*It is the firm's policy, in instances where we are involved in providing significant accounting services to the audited or reviewed client, that the financial statements, disclosures and accounting entries be discussed with the client and this discussion be documented. This requirement will be in addition to the normal management representation letter which is required for all review and audit engagements. And in compliance with Interpretation 101-3 an understanding will be established with each client for which nonattest services are to be performed regarding: the objectives of the engagement, the services, to be performed, the client's acceptance of its responsibilities, the Firm's responsibilities, and any limitations of the engagement*

*The above types of relationships or situations should be considered only as guidelines since an attempt to define all such relationships or situations would be impracticable.*

*Day-to-day interpretation of the application of independence rules to specific situations involving professional staff of the firm is the responsibility of the firm's partners. All questions pertaining to independence matters should be directed to the partners.*

*As a matter of organizational procedure, each partner and professional staff member is required to sign a positive confirmation of independence at least annually. In order to facilitate staff efforts in complying with the requirement, a master list of all the firm's clients is provided to each staff member. Updated client lists will be provided periodically but no less frequently than annually, and, prior to the annual confirmation requirement. An example of the confirmation request is attached to this memorandum, and signed confirmations will be maintained in each individual's personnel file. A copy of the confirmation will be retained by the signer.*

*In circumstances where we as the principal auditor utilize work or reports of other independent auditors who have examined the financial statements of one or more subsidiaries, divisions, branches, components or investments included in the financial statements, SAS 1 requires that we obtain a representation from the other auditor that he is independent under the requirements of the AICPA.*

*Exhibit I-2*

*BKR Yarel +Partners EMPLOYEE*

*CONFIRMATION OF INDEPENDENCE\**

*The undersigned wishes to represent and confirm that:*

- 1. I am familiar with BKR Yarel + Partners independence policy and requirements.*
- 2. I am familiar with Rules 101 and 102 of the Code of Professional Ethics of the AICPA and related rulings and interpretations the Israeli Auditing Standards and, if applicable, the requirements of the Israeli and American Securities and Exchange Commission relative to independence.*
- 3. I have reviewed BKR Yarel's client listing and accordingly am aware of those entities to which the independence policy applies.*
- 4. I have not taken part in any prohibited investments, relationships or transactions.*
- 5. Any situation where I am either not independent or do not know whether I am independent is listed and explained below:*

<u>Client</u>	<u>Possible Independence Issue</u>
_____	_____
_____	_____
_____	_____

\_\_\_\_\_  
*Employee Signature      Date*

*For Administrative Use Only:  
Follow Up Needed*

\_\_\_\_\_Yes      \_\_\_\_\_No

*\*If there are any questions concerning interpretation relative to independence matters, you should consult with the partners before signing this confirmation.*

*INDEPENDENCE RESOLUTION MEMORANDUM*

*Independence Questions Relate to:* \_\_\_\_\_ *Date of Inquiry*

*Client* \_\_\_\_\_ *Partner/Staff*

*Description of the Problem/Question*

*Sources/Persons Consulted* (*Note: Attach copy of applicable material*)

*Findings*

*Decision*

*Resolved by*

*Partner/Manager*

*Date Resolved*

*Reviewed and Approved by Quality Control Committee*

*Date*

**PERSONNEL MANAGEMENT**

**Hiring**

*BKR Yarel + Partners strives to maintain a hiring program designed to obtain qualified personnel by planning for personnel needs, establishing hiring objectives, and setting qualifications for those involved in the hiring function.*

*The partners, as a group, plan (at least annually) the firm's personnel objective. Current clientele, anticipated growth, personnel turnover and individual advancement are among the factors considered. This plan considers the number and qualifications of personnel, as well as the sources and methods for obtaining personnel who meet the requirements and guidelines set by the firm. The partners' plan is documented in the minutes, and then is communicated to all persons involved in the recruiting and hiring process.*

*The Chief Operating Officer is assigned responsibility for hiring entry level staff. The Chief Operating Officer is assisted in recruiting by staff. These staff members do initial screening and interviewing and make a recommendation to the Chief Operating Officer. Applicants for positions above entry level are approved by any partner and the Chief Operating Officer before an employment decision is made.*

*The approval of at least one of the partners is required before making an employment offer in atypical situations, such as hiring relatives of personnel or clients, rehiring former employees, or hiring clients' employees.*

**Hiree Qualifications**

- a. Our firms seeks to employ individuals who possess high levels of intelligence, integrity, honesty, motivation and aptitude for the profession.*
- b. Our firm normally employs university/college graduates with a concentration in accounting as full- time permanent members of our professional staff.*
- c. Newly employed staff members are from the top half of their university/college class, unless other factors such as personal achievements, work experience, and personal interest indicate the likelihood of adequate professional development.*

### *Orientation*

*The firm's policies, procedures and general philosophies are communicated to potential hirees during the interview process. This is documented in the Interview and Evaluation checklist. (See Exhibit 2-1).*

*Orientation for new personnel is accomplished several different ways. An orientation meeting is held when a group of individuals begin employment at generally the same time, or orientation is done on an individual basis. To document the above, the new staff orientation checklist included as Exhibit 2-2 must be completed.*

### *Evaluation of Potential Hirees*

*Background information and documentation of potential hirees qualifications is required for all candidates seeking employment with our firm. This information is documented on the Interview and Evaluation checklist attached as Exhibit 2-1.*

*Section I of the checklist must be completed by the interviewer. The Chief Operating Officer is responsible for completing sections II, III, IV and V. Prior to having a Chief Operating Officer on staff, these sections were completed by the personnel partner.*

### *Advancement*

*BKR Yarel + Partners takes great pride in the caliber of its professional staff. Careful consideration is required to provide the firm and its clients with reasonable assurance that personnel at various levels of responsibility within the firm will have the qualifications necessary for fulfilling the responsibilities they will be called upon to assume.*

*The firm is of the opinion that the formality or informality of a given system, especially one covering advancement, should not discourage and, in fact, we strive to encourage a general "open-door policy" so that professional staff will seek out an meeting or discussion with any and/or all partners to discuss personal problems be they large or small at any time.*

### *Staff Classifications*

*BKR Yarel + Partners has provided for the following staff classifications:*

*Manager*

*Supervisor*

*Senior Accountant*

*Staff Accountant*



*Before being promoted to a supervisor or manager, a CPA certificate is required*

*A general description of the qualifications for these staff classifications is contained in the BKR Yarel + Partners staff manual.*

#### *Evaluation Process*

*At least annually, all professional staff are formally evaluated and reviewed as to their performance, progress and career opportunities. Through the job assignment process, an attempt is made to assure that each staff person has contact with and thereby reviewed by several different people during the course of a year.*

*The BKR Yarel + Partners Employee Performance Reports (Exhibits 2-6) are used to facilitate and document the evaluation process. These reports are prepared by all professional staff who had people assigned to them for 25 or more hours in an assistant capacity during the evaluation period. Several of the more significant criteria considered in evaluating individual performance and expected proficiency are as follows:*

- 1. Technical knowledge*
- 2. Analytical and judgmental abilities*
- 3. Communicative skills*
- 4. Leadership and training skills*
- 5. Client relations*
- 6. Personal attitude and professional bearing (character, intelligence, judgment, and motivation)*
- 7. Commitment to the firm*
- 8. Realization compared to budget*

*All partners are responsible for insuring that evaluations are performed and submitted on a timely basis. Completed forms are reviewed by all partners and utilized by them in making advancement or any termination decisions. An annual evaluation and counseling meeting is then held with each staff member and one or more partners. During the process of the evaluation interviews, partners inquire about and discuss each individual's attitudes, assignment preferences, future objectives, and career opportunities. An informal progress interview is then held approximately six months later, with each staff member. This meeting provides a forum for discussion of progress since the annual review.*

*Informal partner evaluations are done on an annual basis and combine self-appraisal and in the future the peer evaluation in determining a partner's qualifications to fulfill their responsibilities.*

*Assignment of Personnel to Engagements*

*BKR Yarel 's approach to scheduling attempts to achieve a balance of engagement manpower requirements, individual skills, professional development and staff utilization. The Firm's partners determine the criteria for individual engagement assignments and are responsible for staff scheduling. Engagement partners are responsible for monitoring staff qualifications on engagement assignments, including the applicable professional development.*

***Responsibility***

*Each engagement is assigned a responsible supervisory person (manager, supervisor or senior) by the engagement partner after considering such factors as:*

- 1. the complexity of the job.*
- 2. prior experience of the staff person.*
- 3. development of the staff person.*
- 4. timing of the work.*

*Complexity of the job will generally determine the extent of partner involvement and the experience of the responsible staff person assigned.*

*The management team meets on a monthly basis to review client needs and to schedule the appropriate staff for a month period.*

***Time Budgets***

*All audit engagements should have a time budget for partner approval before work commences. Detail contained in the time budget is up to the partner's discretion.*

*Time budgeting for all other engagements (compilation, review, tax, or other services) is done on an informal basis generally via discussion between the responsible partner and staff.*

***Professional Development***

*The firm requires that all professional personnel participate in continuing education programs. The firm has policies and procedures for professional development so as to provide reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned. The firm's policy is that each professional staff person must participate in at least 30 hours of qualifying continuing professional education each year. The education year begins January 1 and ends December 31. The firm accomplishes this through in-house courses and by sending professional staff to selected courses presented by appropriate professional organizations. Persons starting employment at BKR Yarel + Partners are required to complete their CPE hours on a prorated basis.*

***Guidelines, Reporting and Monitoring***

*General guidelines are issued to all professional staff in the firm's intranet. Further, the staff manual contains information on professional development.*

*The Quality Control Committee and Chief Operating Officer annually reviews the firm's professional development program (including personnel participation records) to determine whether it is adequately meeting the firm's needs, providing for the professional growth of individuals. And the Quality Control Committee and Chief Operating Officer are responsible for monitoring compliance with the firm's guidelines and requirements for each member of the professional staff.*

### **Sources of Professional Development**

*In-house Training - the firm periodically conducts formal in-house training programs on topics determined by the Quality Control Committee based on perceived practice problems, issuance of new pronouncements and/or general reviews of authoritative subject matter.*

*Outside Courses - the firm encourages staff to attend courses of their choice which fall within the firm's "guidelines". A partner's approval is required before attending these courses.*

### **Current Technical Developments**

*Original copies of all authoritative pronouncements are maintained in the firm's library or via the Internet to:*

- 1. FASB Statements and Interpretations issued by the FASB.*
- 2. Statements on Auditing Standards, Reviews and Compilations issued by the AICPA.*
- 3. Professional Standards.*
- 4. Journal of Accountancy.*
- 5. All publications of the Israeli Institute of Certified Public Accountants.*
- 6. All publications of the Israeli Accounting Standard Board.*

*It is the responsibility of the Quality Control Committee to distribute statements relating to current developments in accounting and auditing to all personnel not receiving them directly. This includes statements and interpretations. In addition, the staff meetings will include a brief discussion of all new technical pronouncements affecting our firm's practice. Staff are required to obtain annual CPE covering current technical developments.*

*Pronouncements relating to areas of specific interest are distributed by the appropriate specialists to persons who have need for such information.*

### **Outside Involvement**

*Personnel are reimbursed for membership dues paid to the Israeli Institute of Public Accountants and the Ministry of Justice.*

### *Specialization*

*Individuals designated as having specialized experience and expertise are encouraged to maintain their proficiency by joining appropriate professional associations and attending external professional education programs.*

*The firm will pay for memberships in organizations concerned with specialized areas or industries in which the firm is engaged or intends to become engaged.*

### ***On-the-job Training***

*The firm recognizes that on-the-job training accounts for a significant part of professional development. Personnel with in-charge responsibility on engagements should:*

- (i) Discuss with assistants the relationship of the work they are performing to the engagement as a whole.*
- (ii) Permit assistants, when practicable, to become involved in areas of the engagement other than those previously assigned*
- (Hi) Explain to assistants the reasons for any additional work requirements discovered through the review process.*

*Personnel are evaluated in part on their effectiveness to properly train and develop subordinates.*

*The partners should monitor assignments so as to accomplish professional development of staff.*

### ***Advancement and Termination***

*The Firm has established personnel classification levels that describe responsibilities and qualifications for advancement. The Firm's partners are responsible for informing firm personnel about the criteria for advancement and consequences of failure to adhere to firm policies and procedures related to quality performance and ethical principles. The evaluation process is used to make advancement and termination decisions on a timely basis.*

INTERVIEW AND EVALUATION CHECKLIST

Name of \_\_\_\_\_ Position \_\_\_\_\_  
Potential Hiree: \_\_\_\_\_ Sought: \_\_\_\_\_

*INSTRUCTIONS: This form is required to be completed in stages beginning with the initial interview of a potential hiree for a position on our professional staff. The interviewer is responsible for completing Section I. The personnel partners are responsible for completing Sections II, III, IV, and V. Specific instructions are included under each section.*

**Section I - Initial Interview**

Date of the initial interview: \_\_\_\_\_

Location: \_\_\_\_\_

Interviewer: \_\_\_\_\_

- A. *At the appropriate time during the interview, communicate the following firm policies that apply to the position sought by the candidate.*

\* *Advancement*

\* *CPE*

\* *Overtime*

\* *Travel*

\* *Vacation*

\* *Benefits*

\* *Firm's general philosophies*

\* \_\_\_\_\_

\* \_\_\_\_\_

\* \_\_\_\_\_

- B. *Circle the choice that best corresponds to the assessment of the candidate's potential that you reach during the interview.*

*Key: 5-Outstanding, 4-Above Average, 3-Average, 2-Below Average, 1-Not Acceptable, and U-Unable to Evaluate.*

- |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 1. <u>Appearance.</u> Did the candidate present a professional appearance?                                      | 5 | 4 | 3 | 2 | 1 | U |
| 2. <u>Education.</u> Does the candidate's educational background appear to be adequate for the position sought? | 5 | 4 | 3 | 2 | 1 | U |

1. *Journal of Management Studies*, 1997, 34, 1, 1-14.

**Section II - Other Information**

Check additional information that you have requested from the candidate and attach that information to this form when obtained.

☐ Resume    ☐ College Transcript or copy of diploma\*    ☐ Recommendation Letters\*\*

**Section III - Reference Check**

Indicate whether you desire that references be checked: (Optional for entry level hirees, required for experienced hirees.)

☐ Waive reference check.

☐ Please check references.

Reference 1    Reference 2

- |    |   |       |
|----|---|-------|
| 1. | Date of inquiry.                          | _____ |
| 2. | Person making inquiry.                    | _____ |
| 3. | Name of prior employer or reference.      | _____ |
| 4. | Phone No.                                 | _____ |
| 5. | Position held.                            | _____ |
| 6. | Duties and responsibilities.              | _____ |
| 7. | Would prior employer rehire applicant?    | _____ |
| 8. | Did applicant work well with others?      | _____ |
| 9. | Did applicant have advancement potential? | _____ |

\*Optional for interns

\*\*Optional



Reference 1      Reference 2 \_\_\_\_\_

10. Does prior employer believe  
applicant has necessary skills  
for position? \_\_\_\_\_

11. Does prior employer have  
concerns about applicant's  
honesty and integrity? \_\_\_\_\_

**Section IV - Summary**

\_\_\_ *Employment Offer Made*

*Date of Offer:* \_\_\_\_\_ *Date to start employment:*

*Approval of partner or Chief Operating Officer* \_\_\_\_\_ *Date approved*

\_\_\_ *No employment offer made. (File this form in employment file.)*

**Section V - Follow up if Offer is Made**

*Check the appropriate box and follow instructions.*

\_\_\_ *Offer Accepted (File this form in personnel file.)*

\_\_\_ *Offer Rejected (File this form in employment file.)*

NEW STAFF ORIENTATION CHECKLIST

Name: \_\_\_\_\_

Completed by: \_\_\_\_\_ Starting Date: \_\_\_\_\_

\_\_\_\_\_ Employee #: \_\_\_\_\_

*INSTRUCTIONS: This form is required to be completed for all new professional staff on their first day of employment. The office manager or assistant is responsible for completing the form. After completing, this form should be filed in the employee's personnel file.*

Completed      Not Applicable

1. Establish a personnel file to include the following:

- \_\_\_\_\_ a. Interview and Evaluation Checklist, resume, and other application forms.
- \_\_\_\_\_ b. Independence confirmation. \*
- \_\_\_\_\_ c. Form 101.
- \_\_\_\_\_ d. Long-term Disability & Life Insurance (after 6 mo.).

2. Provide the following:

- a. Time Sheets
- b. Client List - Alphabetical

(For Professional Employees Only)      \_\_\_\_\_ Business Card

- a. Quality Control Document.
- b. Staff Manual
- c. Give employee set of keys to office.
- d. Provide mail box.

NEW STAFF ORIENTATION CHECKLIST

(Continued)

Completed \_\_\_\_\_ *Not*  
Applicable

3. *Tour of Office/Introduction.*

\_\_\_\_\_ *a. Provide tour of office (especially library, filing cabinets,  
rest rooms, and copy stations).*

\_\_\_\_\_ *b. Introduce to other personnel as appropriate.*

\_\_\_\_\_ *c. Arrange first day lunch, if appropriate.*

4. *Workstation:*

\_\_\_\_\_ *a. Take new staff member to his or her work station.*

\_\_\_\_\_ *b. Explain telephone system and firm answering policies.*

\_\_\_\_\_ *c. Explain office procedures and other less formal but  
observed customs (how to address partners, dress codes,  
no smoking policy, etc.).*

5. *Starting Assignment:*

\_\_\_\_\_ *a. Introduce to immediate supervisor.*

GENERAL GUIDELINES FOR COMPLIANCE

*The overriding consideration in determining whether a specific program/area qualifies as acceptable continuing education is that it be a formal program of learning which contributes directly to the individual's professional competence. The eight programs/areas described below will qualify for CPE credit provided that:*

- a. An agenda or outline of the program is prepared in advance and/or retained and such agenda or outline is retained and attached to your CPE record form.*
- b. The educational portion of the program is at least one hour (fifty-minute period) in length.*
- c. A record of attendance is maintained.*
- d. The program is conducted by a qualified instructor or discussion leader,*
- e. A record of the course evaluation is maintained.*

PROGRAM/AREAS

- 1. Programs Sponsored by Israeli Institute of Public Accountants.*

*For each program of one hour or more, one hour of CPE credit will be allowed for each 50 minutes of program time.*

- 2. In-house Programs*

*50 minutes equals one credit hour. No documentation is required to be retained by the participants, since the firm will be responsible for all records.*

- 3. Acting as Instructor or Discussion Leader*

*Instructing or serving as a discussion leader will qualify for the same credit hours given to those attending the course. No additional credit is given for preparation time.*

- 4. Service on Technical Committees of The Israeli Institute of Public Accountants. One credit hour will be given for each three hours of meeting.*

- 5. Writing Published Books and Articles*

*One credit hour will be granted for each hour devoted to writing a published book or article provided it contributes to the writer's professional competence.*

*OUTSIDE ACTIVITY*

*Exhibit 2-5  
Page 1 of 2*

*Title or Description of Activity*

*Sponsoring Organization*

*Beginning and Ending Dates*

*Location*

*An outline showing subject matter and class time*

*Evidence of attendance or of having been the  
instructor or group leader*

*For published books or articles, a copy of the book  
or of the publication in which the article appeared*

*OUTSIDE ACTIVITY*  
*(Continued)*

*Exhibit 2-5*  
*Page 2 of 2*

*Credit Hours Claimed:*

*As participant*

*As instructor, group leader, speaker, etc.*

*As author of published article, book, etc.*

*Signature*

*Staff#*

*Date*

*Approved:*  
*Approver Signature*

*Date*

*certified public accountants*  
**EMPLOYEE PERFORMANCE REPORT**

Employee:  
Prepared by:  
Report Period:  
Major assignments covered

Evaluate staff member on following areas using: 1) Outstanding 2) Above average  
3) Average 4) Requires Improvement 5) Unsatisfactory 6) N/A

Technical Ability	2	3	4	5	6
Completes Assignments Efficiently	2	3	4	5	6
Follows Instructions	2	3	4	5	6
Staff Development	2	3	4	5	6
Communication Skills	2	3	4	5	6
Attitude	2	3	4	5	6
Client Relations	2	3	4	5	6
Realization (as Compared to Budget)	2	3	4	5	6

List outside activities in which staff member is involved \_\_\_\_\_

List any new business generated by staff person \_\_\_\_\_

Desirability of this staff member on your engagements in the future:

1) Preferable 2) Acceptable 3) Prefer someone else

At what staff level should this staff member be as of July 1,

A) Supervisor B) Senior C) Semi Senior D) Staff Accountant

List the staff members three most significant strengths and weaknesses:

Comments:

ACCEPTANCE AND CONTINUANCE OF CLIENTS AND ENGAGEMENTS

*General*

*BKR Yarel has established certain policies and procedures for guidance in deciding whether to accept or continue a client. Although the firm does not confirm the integrity or reliability of a client, it is in the best interest of the firm that some acceptance and continuance consideration be given to clients in order to minimize the possibility of association with a client whose management lacks integrity or whose financial condition and/or operations are such that a possibility exists that the firm may be negatively effected by the client.*

*Evaluation of New Clients*

*Client acceptance documentation must be completed for any new prospective attest client or for selected tax engagements. For all audit engagements, a list of continuing clients will be presented to the partners for questions and acceptance each January.*

*Before new clients are accepted by the firm, we should also review available financial information such as tax returns and financial statements, reports to and from regulators, credit reports and make inquiries of bankers, factors, attorneys, credit services, and others who have business relationships with the entity. Communication with the predecessor accountant or auditor will be completed when required or suggested by professional standards. Unless the new client acceptance form has been prepared by a partner, it must be reviewed and signed by a partner. At regular partner's meetings, the partner approving the form will describe his knowledge of the prospective client and obtain concurrence from the other partners as to the ultimate acceptance or rejection. Documentation of the communication with predecessor accountants or auditors and discussion with external parties regarding integrity of new clients is maintained with the client acceptance form.*

*The Israeli Institute of Public Accountants guidelines require that a successor communicate with the predecessor by receiving the predecessors consent to the acceptance of the new client. The predecessor can decline the new engagement only if he has reasonable excuse as defined in the code of professional conduct of the Israeli Institute of Public Accountants.*

*In reviewing available information and reaching a decision on the client, the partners consider such matters as the following:*

- 1. Source of client.*
- 2. Nature of the business to determine any special research or expertise requirements.*
- 3. Any unusual matters noted in review of financial data (such as thin capitalization, poor cash position, negative working capital, etc.).*



4. *High risk industries.*
5. *Litigation status.*

#### *Evaluation of Existing Clients*

*Partners are responsible for informally reviewing status of existing compilation or review clients continually throughout the year to determine if significant changes have occurred in such areas as ownership, financial condition, change in operations, nature of our services, litigation, etc. that would influence the firm's relationship with the client by increasing the firm's exposure to negative occurrences. As conditions warrant, the engagement partner shall inform the other partners of such changed circumstances at the regularly scheduled partners' meetings. And partners are responsible for adjustments to fee arrangements or other terms and conditions of client services.*

#### *Administration*

*New client acceptance forms are required to be filed in the client permanent files. It is the engagement partner's responsibility to ensure that a new client acceptance form is prepared at the time a new client code is established. A completed form is then submitted for the next scheduled partners' meeting for approval.*

#### *Evaluation of New Engagements*

*The firm has policies which require that we evaluate and document whether to perform a specific engagement for a client. Such evaluation incorporates consideration to provide reasonable assurance that the firm:*

- Undertake only those engagements that we can reasonably expect to complete with professional competence.*
- Consider the risks associated with providing professional services in the particular circumstances.*

#### *Engagement Letters*

*The firm documents its understanding with the client regarding the services to be performed by obtaining an engagement letter for all attest engagements.*

BKR Yarel + Partners  
NEW CLIENT ACCEPTANCE FORM (for commercial clients)

Completed by: \_\_\_\_\_ Date: \_\_\_\_\_

*If the Company's accounting services are now being performed by another accounting firm, list the name of the firm, the reason the Company gives for considering a change to our firm, and whether there are disagreements with the prior firm over accounting principles:*

Acceptance Questionnaire	<u>Yes</u>	<u>No</u>
1. Is there any reason to doubt the integrity of the Company's management or officers ?		_____
2. Are we aware of any independence problems or conflicts of interest because of relationships with other clients, partners, or staff? (Complete independence resolution Exhibit 1-3).		_____
3. Are we aware of any fee collection problems?		_____
4. Does the fee arrangement violate the Code of Professional Conduct related to independence, e.g., through acceptance of equity interests, or rules on contingent fees and commissions?		_____

5. *Is the expertise necessary to perform the engagement beyond our capabilities ?* \_\_\_\_\_
6. *Is the staffing commitment required by the job beyond our capabilities ?* \_\_\_\_\_
7. *Are there any disagreements with the present firm over accounting principles ?* \_\_\_\_\_
8. *Is there anything about the engagement that subjects us to undue exposure to third parties or causes us to be uncomfortable about being associated with the engagement?* \_\_\_\_\_

*COMMENTS - A "Yes" response does not necessarily indicate that the prospective client should be rejected. However, for any "Yes" responses, explain the steps that we plan to take to mitigate the situation, e.g., closer supervision, a substantial fee deposit before work can start, assistance from another firm, etc.*

**CONCLUSION:**

*We should accept \_\_\_\_\_ or not accept \_\_\_\_\_ the engagement.*

*Engagement partner \_\_\_\_\_ Date:*

*Concurring partner \_\_\_\_\_ Date:*

### ENGAGEMENT PERFORMANCE

#### *Supervision*

*It is the policy of our firm that all compilation, review, audit, forecast, and projection engagements be properly planned, supervised, and reviewed. In this regard, the following procedures should be followed:*

- 1. The firm has established a summarized engagement approach to planning, supervision, and review which is documented in Exhibit 4-1. The procedures outlined in Exhibit 4-1 should be followed on each engagement.*
- 2. Standardized programs, checklists, and other practice aids used by the firm should be used to document the engagement procedures listed in Exhibit 4-1.*
- 3. The Quality Control Committee is responsible for monitoring and updating the firm's standardized engagement approach. In this regard, Exhibit 4-1 should be updated on a timely basis for (a) changes in authoritative literature, (b) suggestions obtained from the staff, and (c) the results of monitoring.*

#### **Consultation**

*When situations arise involving complex or unusual accounting or auditing issues, professional staff should seek assistance from persons (sources) having appropriate levels of knowledge, competence, judgment and authority. See Exhibit 4-2 for the requisite documentation.*

#### **Areas Normally Requiring Consultation**

*The following example areas and situations, although not all-inclusive, normally require consultation:*

- 1. Application/implementation of newly issued technical pronouncements.*
- 2. Industries with special accounting, auditing, or reporting requirements.*
- 3. Choices among alternative generally accepted accounting principles.*
- 4. Engagements in which a qualified or nonstandard report is likely to be issued.*
- 5. Going concern situations.*
- 6. Engagements involving material litigation.*

*References and Approach*

*A technical reference library is maintained to assist personnel in resolving practice problems. The Quality Control Committee is responsible for reviewing semiannually the library contents and making necessary additions. When difficult accounting and auditing questions arise, assistance should be sought first in-house through discussion with the partners or the Quality Control Committee. If the circumstances are unusual or the answer seems unclear, the engagement partner will generally instruct the staff, the Quality Control Committee, or will himself call an outside sources. Staff below the manager level should generally not consult with sources outside the firm, without prior partner approval.*

*Partners of the firm have relationships with other CPA's recognized as industry or special area experts which on occasion provide our firm with additional input and expertise.*

*Other Tools*

*In addition to the firm's reference library, each staff member has available the following additional reference materials or sources:*

- 1. Current Pronouncements - New pronouncements which comprise of generally accepted accounting principles and standards and generally accepted auditing standards relative to the firm's practice are highlighted and brought to the staff's attention on a periodic basis via e-mail or at a monthly staff meetings.*
- 2. Special Memos - Are issued periodically to all professional staff on matters of an unusual nature or matters requiring special attention within our practice.*
- 3. Disclosure Checklists - Which are discussed in detail under the supervision section of the QC Document are also a reference/study tool for professional staff. These checklists are available from the Firm's practice aids or on line for certain specialized industries.*

### ***In-House Specialists***

*Certain partners or staff, because of their experience, may be designated as being somewhat expert in certain areas or industries.*

### ***Differences of Opinion***

*If a difference of opinion should arise on a practice problem between a professional staff person and an engagement partner and after research and discussion, the professional staff person still disagrees, the engagement partner must seek counsel with the Quality Control Committee and at least one partner.:*

- 1. if the Quality Control Committee agrees with the engagement partner, the matter is considered resolved*
- 2. if the Quality Control Committee disagrees with the engagement partner, a second partner, a recognized industry expert, BKR, or professional Technical Information Services must be consulted and whichever position they agree with, will be followed*

### ***Documentation***

*Documentation of consultation is dependent upon the circumstances. The following examples of possible occurrences are offered examples:*

- 1. If in the partner's opinion the consultation answer is straightforward a mere notation of the facts and a copy of or reference to the authoritative support will suffice. (Exhibit4-2).*

2. *Where any outside sources are consulted and the results are other than as outlined in #J above, generally a short, written memo to the files should be prepared outlining the facts, who was consulted, authoritative references consulted, and the conclusions reached by the staff person including reasons for the conclusion. The engagement partner and Quality Control Committee should initial these memos when prepared.*
3. *Differences of opinion should be reduced to writing following the general guidelines outlined in #2 above.*
4. *One copy of any documentation is filed with the engagement working papers and one copy is routed to the Quality Control Committee to be maintained in the research files.*

#### ***Records Retention***

*The cost of storage space and the administrative burden of maintaining records require that files be kept for only so long and then be destroyed*

*Firms often base how long they keep files on the length of the statute of limitations for breach of contract, breach of fiduciary duty, and professional liability claims.*

*The firm's client engagement files are kept in compliance with professional standards, and other laws and regulations.*

EMENT APPROACH		Forecasts and <u>Projections</u>		Govt. Audits		Audit	
<u>Quality Control Procedure</u>		Historical Financial Statements Compi- Audits lation					
		Review					
1. <b>Summarized Engagement Approach.</b> The engagement partner should evaluate whether the firm can accept a new engagement by considering (a) the integrity of management, (b) if communication with predecessor accountants is necessary (including considering whether disagreements over accounting principles exist), (c) if the firm lacks independence (including investigating whether there are past due fees), (d) if there are any scope limitations that would prevent completion of the engagement, and (e) if the firm has the expertise and staff availability to complete the engagement. This evaluation should be documented. Discontinuance of an engagement for a continuing client requires the engagement partners' approval.	Compi- lation						
	yes					yes	
	yes yes						
	yes	yes	yes	yes	yes		yes
2. <b>Client Set-up.</b> The partner or person in charge of the engagement should obtain information to set up the billing, accounts receivable system and, where applicable, internal processing form (IPF) of a new client.	yes						
	yes	yes	yes	yes yes		yes	yes
3. <b>Communication with Predecessor.</b> Consultation with the predecessor auditor should be made prior to accepting a new client. Certain key factors should be considered including: 1) what the predecessor auditor believes the change in auditors is due to; 2) if the predecessor auditor had any concerns about management's integrity; 3) any disagreements the predecessor auditor had with management of the prospective client with respect to accounting principles or auditing procedures; and 4) any communications the predecessor auditor may have had with the audit committee or similar group/committee with respect to fraud or illegal acts by the client and any communication on internal control related matters. This consultation should be documented and maintained with the new client acceptance form.							
		yes	yes	yes			yes
4. <b>Engagement Letter.</b> The partner in charge of the engagement should obtain an engagement letter on all engagements. Appropriate letters are found among the firm's accumulated practice aids or in the accounting and auditing manuals used by the firm. For all <u>continuing</u> engagements, the staff person should determine that the files contain an engagement letter.							
5. <b>Client Information.</b> The staff person in charge of the engagement should obtain information about the accounting principles and practices of the industry in which the client Operates. Also, obtain knowledge about the client's business, accounting system, and operating characteristics. This information should be documented by completing or updating a client information form found in the firm's audit and accounting manuals.							



## SUMMARIZED ENGAGEMENT APPROACH

<u>Quality Control Procedure</u>	Historical Financial Statements				Forecasts and Projections	
	Compi- lation	Review	Audits	Govt. Audits	Compi- lation	Audit
6. <b>Use of Analytical Procedures.</b> Certain key financial statements should be reviewed for material differences between current and preceding periods or between budgeted and actual amounts, as applicable. An explanation should be obtained for significant differences and/or differences from the auditor's expectations. Consideration should be given to whether similar results have been experienced by other similar entities, if practical and applicable.	n/a	yes	yes	yes	yes	yes
7. <b>Internal Control System Evaluation and Planning.</b> For audit engagements, the staff person in charge of the engagement should obtain the client information and also consider the internal control system in accordance with SAS No. 55, as amended. This information should be documented by completing or updating an audit planning form found in the firm's audit and accounting manuals.	n/a	n/a	yes	yes	n/a	yes
8. <b>Materiality Determination.</b> For audits and reviews, the staff person in charge of the engagement should determine a planning estimate of financial statement materiality by completing a materiality worksheet.	n/a	yes	yes	yes	n/a	n/a
9. <b>Fraud Documentation.</b> The following should be documented with respect to the auditor's consideration of fraud: 1) the discussion among members of the respective engagement team in the planning stage of the engagement regarding where/how the respective client's financial statements are susceptible to material misstatement due to fraud; 2) procedures performed in order to identify and assess the risk of material misstatement due to fraud; 3) identification of specific risks of material misstatements and what the auditor's response to those risks will be including any modifications needed to the nature, extent and timing of audit procedures and tests; 4) assessment of the risk of management override of internal controls; 5) where it is determined that there is not a risk of material misstatement due to improper revenue recognition due to fraud, the conclusion for this determination should be fully documented; 6) additional auditing procedures performed due to identification of conditions or analytical relationships that indicate the need for these procedures; and 7) the nature of any communications about fraud made to the client's management, audit committee or similar committee/group. A similar consideration of fraud should be documented as required by SSARS No. 10.	n/a	yes	yes	yes	n/a	n/a

(1) *Yes, if appropriate for certain nonprofit ntities.*

## SUMMARIZED ENGAGEMENT APPROACH

	<u>Historical Financial Statements</u>				<u>Forecasts and Projections</u>	
	<u>Compi- lotion</u>	<u>Review</u>	<u>Audits</u>	<u>Govt. Audits</u>	<u>Compi- lation</u>	<u>Audit</u>
Qualitv Control Procedure						
11. <b>Work Program.</b> The staff person in charge of the engagement should tailor an engagement work program utilizing programs developed internally or the recommended <b>programs</b> found in the accounting and audit manuals used by the firm. The engagement partner or manager should approve the program prior to beginning any significant field work.	yes	yes	yes	yes	yes	yes
12. <b>Confirmations.</b> Confirmations of significant account balances or other financial statements amounts may be obtained as deemed necessary by the respective engagement partner or as required by regulatory agencies. Sample examples of these confirmations can be found in the firm's practice aids. Alternative procedures should be performed when confirmations are not returned for positive confirmations.	n/a	n/a	yes	yes	n/a	
13. <b>Engagement Budget</b> For an engagement in excess of 100 hours, the staff person in cliarge of the engagement should prepare and document a time estimate. The engagement partner or manager should approve the time estimate before any significant field work begins.	optional	optional	yes	yes	optional	Yes
14. <b>Staff Assignment.</b> The engagement partner should assign personnel to the engagement after coordinating overall staff utilization with the respective department partners. In making this assignment, the following factors should be considered: <ul style="list-style-type: none"> <li>a. engagement size and complexity</li> <li>b. available personnel</li> <li>c. special expertise required</li> <li>d. timing of work</li> <li>e. continuity and, where possible, periodic rotation of staff to provide opportunities for on-the-job training</li> </ul>	yes	yes	yes	yes	yes	
15. <b>Workpaper Preparation.</b> The staff assigned to the engagement should prepare formal indexed workpapers for audit and review engagements, following internally developed guidelines or those recommended in the audit manuals used by the firm. (Workpapers for other engagements may be informal but should be filed in an orderly manner.)	optional	yes	yes	yes	optional	
16. <b>Evaluation of Audit Differences.</b> Audit differences noted should be documented and accumulated to determine if they are either individually or materially significant to the financial statements and what adjustments, if any, to the financial statements are required. The audit differences should also be evaluated as to whether the nature of such differences may be indicative of possible fraud or illegal acts.	n/a	n/a	yes	yes	n/a	

<u>Quality Control Procedure</u>	SUMMARIZED	IMPLEMENTATION APPROACH				Forecasts and Projections	
		Historical Financial Statements			<u>Govt, Audits</u>	<u>Compi-lation</u>	<u>Audit</u>
		<u>Compi-lation</u>	<u>Review</u>	<u>Audits</u>			
17. <b>Disclosure Checklist</b> The staff person in charge of the engagement should complete a financial statement presentation and disclosure checklist, following internally developed guidelines or those recommended in the accounting and auditing manuals used by the firm for these checklists.		(1)	yes	yes	yes	yes	yes
18. <b>Workpaper Review.</b> The staff person in charge of the engagement should review all the workpapers for the engagement and determine that all work program steps have been properly completed. If assistant staff are utilized, their workpapers should be approved by the staff person in charge.		yes	yes	yes	yes	yes	yes
19. <b>Evaluation of Going Concern.</b> If any conditions or events are identified that cause the firm to believe that there is a substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time not to exceed one year beyond the date of the financial statements being audited, the evaluation of going concern should be documented. Then, it must be determined what additional audit procedures should be completed and if any financial statement disclosures and/or qualifications to the auditor's opinion are required.		yes	yes	yes	yes	yes	yes
20. <b>Subsequent Events.</b> A review for significant subsequent events from the audit year end date through the date of the auditor's report should be conducted. Any significant events should be summarized in the workpapers and disclosed in the financial statements. The following should be considered for the period from the financial statement date through the date of the auditor's report - minutes, interim financial statements or financial reports or budgets prepared, cash receipts and disbursements records and journal entries. An inquiry should be made to key management about any significant subsequent events as well.		n/a	n/a	yes	yes	n/a	n/a
21. <b>Legal Representation Letter.</b> A legal representation letter from at least the client's principal counsel should be obtained addressing any material pending or threatened litigation, claims and assessments in accordance with Statement of Financial Accounting Standards No. 5. The attorney's written response should be dated on or close to the date of the auditor's report; if not, an update should be obtained which can be either verbal or written. The attorney's letter should be reviewed to determine if any material commitments or contingencies have been identified which would require disclosure in the financial statements.		n/a n/a	yes	yes	n/a		
<" Required for all full disclosure compilations.							

## SUMMARIZED ENGAGEMENT APPROACH

<u>Quality Control Procedure</u>	<u>Historical Financial Statements</u>				<u>Forecasts and Projections</u>	
	<u>Compi- lation</u>	<u>Review</u>	<u>Audits</u>	<u>Govt. Audits</u>	<u>Compi- lation</u>	<u>Audit</u>
22. <b>Management Representation Letters.</b> A written representation letter signed by the owner and/or significant management personnel should be obtained which is dated as of or after the date of the auditor's report. The letter should contain the significant required representations made by management or other significant client personnel and should be tailored to the respective industry. Examples of these letters can be found in the firm's various practice aids.	n/a	yes	yes	yes	n/a	yes
23. <b>Communication with the Audit Committee.</b> Either orally or in written form, the following, where applicable, should be communicated to the audit committee or similar committee or group that acts in the place of an audit committee: 1) our responsibilities under generally accepted auditing standards, 2) significant accounting policies; 3) accounting estimates by management; 4) any audit adjustments; 5) any disagreements with management; 6) any difficulties encountered in performing the audit, and 7) any major issues discussed with management prior to the initial engagement of our firm as auditors as well as any issues discussed prior to our continued engagement as auditors. In addition, significant deficiencies encountered during the audit should be communicated in the form of a management letter or discussed verbally with the client. Any reportable conditions and matters weaknesses should be communicated, where applicable, in accordance with audit standards, Yellow Book standards or Single Audit Requirements.	n/a	n/a	yes	yes	n/a	n/a
<sup>24</sup> <b>Consultation Documentation.</b> If, during the engagement, there are unusual matters that require consultation, document these matters and their resolution in a memorandum and file the memorandum in the engagement workpapers. (See Exhibit 4-2.)	yes	yes	yes	yes	yes	yes
25. <b>Disagreements Among Staff.</b> If, during the engagement, there are differences of professional judgment among members of the engagement team, they should be brought to the attention of the engagement partner and resolved and documented in accordance with procedures outlined in Section 4. Any party to the discussion who disagrees with the conclusion has the option of preparing a memorandum and filing it in the workpapers and with the quality control committee	yes	yes	yes	yes	yes	yes

	SUMMARIZED	MANAGEMENT APPROACH				Forecasts and Projections	
		Historical Financial Statements			Govt, Audits	Compi	Audit
	Quality Control Procedure	Compi- lation yes	Review yes yes	Audits yes yes	yes  yes	-	yes
26. <b>Partner Review.</b> The engagement partner or manager, if one is assigned to the engagement, should review the workpapers, financial statements and document and determine that all program steps have been properly cleared before the delivery of the product. In addition, for all governmental audits, a second partner technical review is performed. A second partner or technical review can be performed on other engagements at the partner's discretion.		yes				yes	
27. <b>Quality Control Review.</b> A quality control review should be conducted by the respective manager, a partner or a member of the Quality Control Committee on all audit and review engagements.						yes	Yes
28. <b>Review Notes.</b> Any review notes prepared as a result of the engagement should be completed and then cleared by the person preparing them prior to releasing the financial statements. After clearing, the review notes are to be removed from the workpapers and destroyed.			yes	yes	yes	yes	Yes
29. <b>Proofing.</b> Before submitting financial statements for partner or quality review, the staff in charge is responsible for arranging appropriate proofing of the report and financial statements as necessary.		yes	yes	yes yes	yes		Yes yes
30. <b>Permanent File.</b> The Permanent File should contain client information that will be needed for both the current and future engagements in accordance with the requirements of Professional Standards.		yes	yes	yes		yes	Yes

CONSULTATION DOCUMENTATION MEMORANDUM

Client: \_\_\_\_\_ Date: \_\_\_\_\_

*INSTRUCTIONS: Upon resolution of a technical question or problem through consultation, this form or a similar form should be completed by the accountant in charge of the engagement. The engagement partner and, if the consultation involved an in-firm specialist or expert, the in-firm specialist or expert should sign and date this form indicating their agreement with the resolution. (Attach additional pages if required.)*

*Description of Engagement:*

*Specialist or Expert Consulted:*

*Description of Problem/Question:*

*Summary of Conclusions (Include reasons for conclusions and appropriate citations of professional literature):*

*Decision:*

*By signing below, agreement with decision is indicated:*

\_\_\_\_\_  
*Engagement Partner*

\_\_\_\_\_  
*Quality Control*

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Date*

*Copy to Quality Control Committee for Research files.*

## MONITORING

### **General**

*A necessary element of our quality control system is the element of monitoring. The objective of monitoring is to provide reasonable assurance that the firm is complying with the other elements of quality control and the professional standards governing the accounting and auditing practice on an ongoing basis.*

### **Monitoring Program**

*The objective of the monitoring program will be to review a representative cross-section of the firm's engagements and also a representative cross-section of the firm's personnel. Approximately 5 percent of the firm's accounting and auditing hours will be included in the inspection/monitoring programs.*

- The inspection/monitoring procedures will entail the following:*
- Review of selected administrative and personnel records.*
- Review of engagement working papers, reports, and clients' financial statements.*
- Discussions with the firm's personnel.*
- Summarization of the findings from the inspection/monitoring procedures and consideration of the systemic causes of findings that indicate improvements are needed*
- Determination of any corrective actions to be taken or improvements to be made.*
- Communication of the identified findings to appropriate firm management personnel.*

### **Timing**

*Monitoring will be continuous throughout the year. The Quality Control Committee will establish a monitoring plan on January 1 of every year. The selected engagements will be communicated to the engagement partner and the technical reviewer as part of the pre-issuance review process. The monitoring program will include engagements from all partners and managers, first year engagements, significant specialized industries, all levels of service provided, employee benefit plans, and governmental engagements.*



### **Resolution of Disagreements**

*The first step in resolving any disagreements noted during inspection will be at the engagement partner level. If disagreements still exist, the final arbiter will be the Quality Control Committee, with any partner on the Committee involved in the engagement abstaining from the final decision.*

### **Selection of Reviewers**

*It is the responsibility of the Quality Control Committee to select the appropriate reviewers. The reviewers will possess sufficient experience and technical expertise to perform a competent inspection. They will be either partners, managers or equivalent in the firm or outside consultants with current knowledge of applicable professional standards, industry expertise and be familiar with the firm's quality control policies and procedures.*

### **Documentation**

*The actual performance of the inspection will be done as follows:*

- *Personnel files will be reviewed to ensure they contain independence forms, hiring documentation, and personnel evaluations.*
- *New client files will be reviewed for client acceptance forms.*
- *Appropriate disclosure checklists, audit programs/engagement checklists and Peer Review Program checklists will be used to perform the inspections and monitoring.*

*After the summary inspection/monitoring report is finalized, no working papers, checklists, or notes will be retained regarding the engagements reviewed or the findings on those engagements.*

### **Findings**

*A summary inspection/monitoring report will be prepared at the conclusion of the monitoring program. All monitoring findings will be discussed first at the engagement level. All findings will then be summarized, along with any recommendations for corrective actions and reported to the firm's partners at a partners' meeting and any significant findings will be discussed at the regularly scheduled staff meeting. Interim monitoring reports will be issued as necessary.*

*It will be the responsibility of the Quality Control Committee to ensure that all corrective actions were taken.*

*Preissuance Reviews*

*It is the firm's policy that prior to issuance of any audit, review, or agreed-upon procedures report, the financial statements, footnotes and our reports undergo an independent technical review. Any review notes or comments are addressed by the engagement partner or senior staff, and are discarded when completed. Evidence of the review is indicated by initialing on work papers or internal processing forms. In addition, all governmental audits are required to be reviewed and signed off by a second partner. This review is also evidenced by signing of the review sheet.*

**SUMMARY INSPECTION REPORT**

***I, Planning the Inspection***

- A. Inspection period*
- B. Name of Inspectors*
- C. Development of Inspection Program:*
  - 1. Describe programs used and indicate any deviations therefrom.*

*Describe basis for selection of engagements:*

- D. Timing of Inspection:*

***II. Scope of Work Performed***

- A. Indicate elements of quality control not addressed and give reasons.*

SUMMARY INSPECTION REPORT  
(Continued)

B. Engagements Reviewed:

		<u>Firm Totals</u>		<u>Engagements Reviewed</u>	
<u>Hours</u>	<u>No. of Engs.</u>	<u>Hours</u>	<u>No. of Engs.</u>		
Audit					
Reviews					
Other Accounting Services					

Percentage of  
Practice Reviewed

Comments:

III. Engagement Conclusions

Did the inspection disclose any situation that led the reviewers to conclude that the firm or office should consider:

1. Taking action to prevent future reliance on a previously issued report? Yes \_ No

**SUMMARY INSPECTION REPORT**

*(Continued)*

2. *Performing additional auditing procedures to provide a satisfactory basis for a previously expressed opinion?*

*Yes \_\_\_ No*

- B. *Did the inspection team conclude in any instances that the firm lacked a reasonable basis under the standards for accounting and review services for the report issued?*

*Yes\_\_\_ No*

*If any of the answers above are yes, attach a description of such situations, including actions the firm has taken or plans to take.*

**TV. *Findings and Recommendations***

*Attach a copy of any reports issued, including a summary of any inspection findings and recommendations for improvement or list such findings and recommendations below.*

*Partner/Manager*

*Date*