



## QUALITY CONTROL DOCUMENT

McKenzie Forensic Auditor'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 the understanding, implementing, and adhering to these policies and procedures.

McKenzie Forensic Auditors., is a member of the FLCPA Government 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) 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 FLCPA Government Audit Quality Center, it is the policy of the firm that all eligible audit partners be members of the FLCPA. It is the responsibility of the managing partner to annually advise each audit partner that FLCPA membership is mandatory. Also, as required by the membership requirements of the Center, the managing partner annually designates an audit partner to assume firm-wide responsibility for the quality of the firm's governmental audit 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 evidence 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 managing partner.

### I. LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

It is McKenzie Forensic Auditor'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 managing partner, assumes responsibility for the firm's system of quality control and designs the system to (a) emphasize the importance of performing work that complies with professional standards and regulatory and legal requirements and (b) issue reports that are appropriate in the circumstances. In maintaining a culture of quality, the firm emphasizes the importance of ethics and integrity in every decision that personnel make, particularly at the engagement level. The firm ensures compliance with this policy by implementing the following procedures:

1. Dedicating sufficient and suitable resources to the quality control system and quality initiative and assigning the operational responsibility for the firm's control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary QC policies and procedures. The firm appropriately communicates clear, consistent, and frequent actions and messages that emphasize the firm's quality control policies and procedures. Such actions and messages include—
  - 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.
  - 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 managing partner evaluates client relationships and engagements to ensure that commercial considerations are not placed ahead of the firm's commitment to quality control. Additionally, the firm's performance evaluation, compensation and advancement policy and procedures (covered in the human resources QC document) do not place commercial considerations ahead of the quality of work performed.
3. The managing partner and other partners in the firm demonstrate the importance of quality by their actions. Such actions include—
  - Making decisions with a focus on the public interest and emphasizing that personnel do the same.
  - Demonstrating the importance of creating and maintaining a good public reputation.
  - Ensuring partners and staff have sufficient time and resources to solve engagement challenges.

- Following the spirit, as well as the letter, of professional, regulatory, and legal standards.
  - Displaying enthusiasm and sincerity in communicating its commitment to a quality initiative.
  - Demonstrating consistency.
4. A formal code of conduct is established 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.
  5. A positive work environment is maintained by combining the firm's quality objectives with the personnel's needs to be valued and appreciated.
  6. McKenzie Forensic Auditors., hires, compensates, and promotes individuals who possess and exhibit high levels of integrity, as covered in the human resources QC policies and procedures.
  7. Ethics training is provided for all professional personnel at least every three years, as covered in the relevant ethical requirements QC policy and procedures.
  8. The firm rewards personnel who demonstrate a commitment to quality through its performance evaluation, compensation, and advancement system, as covered in the human resources QC policies and procedures.
  9. Unethical behavior is not tolerated in any way and instances of noncompliance with the firm's quality control system will be addressed through swift disciplinary action or, in extreme cases, termination of the offending employee.
  10. At least annually, the leadership responsibilities policy and procedures are reviewed to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

## II. RELEVANT ETHICAL REQUIREMENTS

It is McKenzie Forensic Auditor's policy that all professional personnel be familiar with and adhere to relevant ethical requirements of the AICPA, contained in the *Code of Professional Conduct*, the State of Florida Board of Accountancy, and the State of Florida 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 and that personnel will always act in the public interest.

Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats, but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach has occurred. The firm will take appropriate action to eliminate those threats or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach. The firm ensures compliance with this policy by implementing the following procedures:

1. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. Such signed representation letters are also required from part-time, seasonal, and contract professionals and any other individuals who work on accounting and auditing engagements and are required to be independent. Ethics training is provided for professional personnel at least every three years. Such training covers the firm's relevant ethical requirements policy and procedures and the independence and ethical requirements of all applicable regulators.
2. Additions to the firm's client list are communicated to all personnel on a timely basis by a memorandum from the managing partner.
3. If a potential threat to independence is identified, the managing partner accumulates and communicates relevant information to appropriate personnel so (a) firm management and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to

independence, and (c) the firm can maintain current independence information. For clients of who the firm is not independent, only compilation services are performed.

4. Current copies of all applicable independence, integrity, and objectivity requirements are maintained in the firm's library.
5. The work programs and standard forms in the accounting and auditing manuals used by the firm include steps that require:
  - a. A determination of complying with relevant ethical requirements on each new and recurring client.
  - b. A consideration of unpaid fees.
  - c. An annual confirmation of the independence of another accountant performing work on a segment of an audit, review, or attestation (including forecast and projection) engagement.
  - d. Appropriate reporting on compilations in which the firm is not independent.
  - e. A consideration of whether actual or threatened litigation has effect on the firm's independence with respect to the client.
  - f. A determination of whether all professional personnel are independent of the financial reporting entity, if the firm is engaged as the principal auditor to report on the basic financial statements of the financial reporting entity.
  - g. A consideration of whether the firm was party to a cooperative arrangement with a client that was material to the firm or the client.
6. The engagement partner has the primary responsibility to identify all non-attest services performed for an attest service client and for determining if such non-attest services impair independence with respect to that client. Reviewing non-attest services performed for attest clients included obtaining and documenting an understanding with the client regarding the client's responsibilities for the non-attest services performed by the firm. Where applicable, this includes determining whether such non-attest (non-audit) services impair independence under the independence rules in *Government Auditing Standards* for ongoing, planned, and future audits. Firm engagement work programs for all attest and compilation engagements include steps to ensure compliance with this procedure.
7. All relevant ethical requirements matters (including questions from the representation letters and those from other sources) are resolved by the managing partner. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent work-paper files.
8. The managing partner is 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.
9. The managing partner is 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.
10. If a breach of independence is identified, the firm promptly communicates the breach and the required corrective actions to (a) the engagement partner, who (along with the firm) has the responsibility to address the breach and (b) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the firm when required corrective actions related to the breach and noncompliance with these policies and procedures has been taken.
11. At least annually, the managing partner reviews the firm's ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

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

It is McKenzie Forensic Auditors 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 (or existing tax or consulting 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 completed form is routed to the managing partner who decides whether to accept or reject the prospective client and who documents that conclusion on the form.
2. For existing attest clients, the managing partner annually reviews the firm's client list and reevaluates the acceptability of each client and engagement. Generally, reasons that might surface in either the firm-wide or individual engagement review that would cause the firm to consider discontinuing services include significant changes in the client and its operations or 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. 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.
3. The managing partner or the engagement partner documents how issues identified during the acceptance and continuance process were overcome and resolved so the firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusion, 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 managing partner 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. The engagement partner and managing partner jointly decide whether to withdraw from an attest engagement. 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.
5. The engagement partner is responsible for ensuring that an engagement letter is obtained for each attest client. The engagement letter should document the firm's understanding with the client regarding the nature, scope, and limitation of the service to be performed, as well as the identification of the engagement partner and his or her role.
6. For audit engagements, the engagement partner is responsible for—
  - Being satisfied that appropriate acceptance and continuance procedures were followed and that the acceptance and conclusion decisions reached are appropriate.
  - Promptly communicating information obtained, if any, that would have caused the firm to decline the engagement had it been known initially, to the firm, so that the firm and the engagement partner can take the necessary action.
7. If the firm discovers a potential conflict of interest during the acceptance and continuance decision, the managing partner determines 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.
8. At least annually, the managing partner reviews the firm's acceptance and continuance of client relationships and specific engagements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

#### **IV. HUMAN RESOURCES**

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

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

### **Recruitment and Hiring**

It is McKenzie Forensic Auditor's policy that recruitment and hiring decision 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. The managing partner makes recruitment and hiring decisions after considering the needs of the firm.
2. An interview is performed for each applicant.
3. New employees are informed of the firm's personnel policies and procedures on their first day of employment.

### **Determining Capabilities and Competencies**

It is McKenzie Forensic Auditor's policy to ascertain whether individual members of the professional staff possess requisite capabilities and competencies. In making this determination, the firm primarily considers qualitative measures, as opposed to quantitative ones. The firm ensures compliance with this policy by implementing the following procedures:

1. Periodically, the managing partner assesses the capabilities and competencies of engagement partners to help assure proper engagement performance. The following capabilities and competencies are assessed based on the characteristics of the particular client, industry, and service provided:
  - a. An understanding of the role of the firm's QC system and the Code of Professional Conduct.
  - b. An understanding of the service to be performed.
  - c. Technical proficiency.
  - d. A familiarity with the industries served.
  - e. Professional judgment.
  - f. An understanding of the organization's information technology systems.
  - g. Personal attributes, leadership qualities, and perspective on business issues.
2. The firm considers other engagement partner capabilities and competencies as needed in the circumstances, which may include—
  - a. Various personal attributes, such as integrity and ethics, professionalism, project management skills, etc.
  - b. Leadership qualities, including strategic thinking and planning, negotiating and persuading, teamwork, problem solving, coaching and empowerment, etc.
  - c. Perspective on business issues, such as managing and developing people, marketing and selling, knowledge of best practices, business advisory skills, etc.
3. The firm determines how engagement partners and other personnel can best obtain additionally needed capabilities and competencies.
4. Performance evaluations are conducted, at least annually, to determine the capabilities and competencies possessed by each professional 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), the managing partner 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. The managing partner makes all partner assignments, while staff assignments are determined by the firm's engagement partners. All assignments are made after considering the requisite competencies and capabilities needed for the particular client and engagement.

### **Professional Development**

It is McKenzie Forensic Auditor's policy that all professional personnel (including non-CPA partners) comply with the continuing professional education requirements of the AICPA, the New York and Florida State Board of Accountancy, the AICPA Governmental 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, a Firm CPE Planning worksheet is prepared and approved by the managing partner.
2. The managing partner monitors employee progress toward meeting the CPE plan.
3. All CPA professional personnel are to obtain a minimum of 40 hours of CPE each year (or, alternatively, meet the CPE requirements of the AICPA) in programs that qualify for credit under the CPE rules that govern the firm.
4. Individuals who work on audits and attestation engagements subject to the Government Auditing Standards, including planning, directing, performing fieldwork, 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 assignments and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book assignments are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits or attestation engagements.
5. 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.
6. Appropriate CPE documentation is maintained for each professional for the most recent five years.
7. The firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities.
8. The firm recognizes the importance of on-the-job training and encourages personnel with supervisory responsibility to be aware of situations where it can be provided.
9. The firm recognizes the benefit of other professional development activities and encourages personnel at each staff level to participate in such activities.

## Performance Evaluation, Compensation, and Advancement

It is McKenzie Forensic Auditor'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 should have the necessary qualification 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. The following personnel levels and related performance criteria are used by the firm:
  - a. **Junior Staff Accountant**—Assume responsibility for unaudited financial statement engagement, segment of audits, or the completion of tax returns under the supervision of more experienced staff.
  - b. **Staff Accountant**—Assume responsibility for unaudited financial statement engagements, segments of audits, or the completion of tax returns under the supervision of more experienced staff.
  - c. **Senior (In-Charge)**—Assume responsibility for the supervision of unaudited financial statement engagements, audits, and tax return preparation engagements.
  - d. **Manager (Supervisor)**—Plan and supervise assigned engagements as well as assist in administrative functions of the office and the development of new practice opportunities.
  - e. **Partner**—Assume ultimate responsibility for all assigned engagements, perform assigned administrative duties, and participate in civic and community activities.
2. All professional staff are orally evaluated at the completion of engagement of approximately 150 or more hours, or more frequently as needed. All professional staff are formally evaluated at least annually at which time an evaluation form is completed.
3. The managing partner annually approves partner compensation and any incentive bonus based upon criteria established by the partner group. Such criteria reward quality service and do not place commercial considerations ahead of the quality of work performed.
4. At least annually, and on an ad hoc basis if necessary, the partners meet as a committee to discuss advancement, compensation, and termination decisions.

## V. 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 complex 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

It is McKenzie Forensic Auditor's policy that all compilation, review, audit, and attestation (including forecast and projection) engagements be properly planned, performed, supervised, reviewed, documented, and reported or communicated in accordance with the requirements of professional standards, regulatory and legal requirements, and the firm.

The firm adopts and integrates within its quality control system the use of PPC accounting and auditing manuals and practice aids. 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 requiring a higher level of performance or documentation than the minimum specifically required by our firm's QC policies and procedures, nor to override the exercise of professional judgment.

### Engagement Quality Control Review

It is McKenzie Forensic Auditor'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 procedure 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—
  - The structure and nature of the firm's practice.
  - The nature of the engagement, including whether it involves a matter of public interest.
  - Whether unusual circumstances or risk have been identified relating to the engagement, engagement service type, or industry.
  - 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 type of service provided (i.e., compilations, reviews, audits, 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 performed.
3. The firm may periodically make changes to the established criteria based on changes in the firm's practice.
4. Based on the current composition of the firm's accounting and auditing engagements, the firm has concluded that engagement quality control review should be performed for all audit engagements. Reviews and compilations are not required to have engagement quality control review performed.
5. Performing an engagement quality control review includes the following procedures—
  - An objective evaluation of significant judgments made and the conclusions reached in formulating the report.
  - Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
  - Considering the evaluation of the firm's and the engagement team's independence in relation to the specific engagement.
  - Reading the financial statement or other subject matter information and the report and considering whether the report is appropriate.
  - A review of selected engagement documentation relating to the significant judgments and the conclusions reached.
  - A discussion with the engagement partner about significant findings and issues.
  - The EQCR may be conducted at various stages throughout the engagement to ensure that significant issues may be resolved to the reviewer's satisfaction before the report is released.
  - 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. If differences of opinion occur between the engagement partner and the engagement quality control reviewer, appropriate differences of opinion procedures are followed (see the Consultation and Differences of Opinion section of this QC document), and documentation of the resolution of the conflicting opinions is finalized before the release of the report.
7. The firm prepares appropriate documentation of the engagement quality control review, including documentation that reflects—
  - The engagement quality control review procedures required by firm policies have been performed.
  - The engagement quality control review was completed before the report was released.
  - The reviewer was not aware of any unresolved matters that would have caused him or her to believe that significant judgments made and conclusions reached were not appropriate.
8. The firm addresses the appointment of engagement quality control reviewers and the technical qualifications required to perform the role, including the necessary experience and authority. In selecting appropriate engagement quality control reviewers, the following criteria are followed—
  - The engagement quality control reviewer is selected by the managing partner.

- The engagement quality control reviewer has sufficient and appropriate experience, technical expertise, and authority for the particular engagement to be reviewed.
- 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.
- The engagement quality control reviewer does not 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.

### **Consultation and Differences of Opinion**

It is McKenzie Forensic Auditor's policy that personnel refer to the authoritative literature or other sources when appropriate. It is the firm's policy that all professional personnel seek consultation, on a timely basis, whenever differences of opinion occur or uncertainty exists about the answer to a technical question. 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 it is impossible to list all situations that might require referral to authoritative literature or other sources or that might require consultation, the following situation, due to their complexity, 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. 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. Issues requiring consultation are first discussed by members of the engagement team. If further consultation is necessary, individuals within the firm having appropriate expertise are then consulted.
4. Consultation with specialists outside the firm, including non-accounting specialists, must be approved by the engagement partner.
5. All known relevant facts are provided to those consulted so they can understand the nature and scope of the consultation.
6. All consultations involving unusual, contentious, unfamiliar, or difficult issues should be 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.
7. 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 can be resolved using Procedure 4 and 5, if possible. If not, the matter should be brought to the attention of the managing partner. The managing partner (with assistance of other practitioners or regulatory entities if desired) will resolve the dispute regarding the proper course of action to be taken by the firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented should be documented. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion may document his or her disassociation from the resolution of the matter. The firm will not release the report until any differences of opinion are resolved.

At least annually, the managing partner 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.

## VI. MONITORING

It is McKenzie Forensic Auditor’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, operating effectively, and being effectively applied. Monitoring activities include engagement quality control review (EQCR), inspection, and post-issuance review. EQCR, performed prior to completion of the engagements, assists in providing ongoing consideration and evaluation of the firm’s QC system. The policy and procedures relating to EQCR are addressed in the ENGAGEMENT PERFORMANCE section of this document. The retrospective monitoring activities performed by the firm relate to inspection and post-issuance review (collectively referred as *inspection/review*) and are 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 applicable professional standards 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 managing partner selects an individual or team (hereafter referred to as the “inspector”) to perform inspection/review procedures on the firm’s quality control system. The monitoring process is planned, performed, and documented using the appropriate monitoring checklist found in the practice aid section of *PPC’s Guide to Quality Control* as a work program. The monitoring procedures include review of administrative records to assess compliance relating to QC elements other than engagement performance. The monitoring process will include a review of the governmental audit practice in accordance with the membership requirements of the respective audit quality center.
2. At the conclusion of the inspection/review, the inspector is responsible for (a) identifying and summarizing the deficiencies noted for each engagement reviewed, and (b) discussing the results of the inspection/review with the supervisory personnel responsible for each of the engagements selected for review and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagements. Once identified, deficiencies are summarized and evaluated to determine whether:
  - a. Appropriate competencies are being achieved for accounting, auditing, and attestation engagements.
  - b. Existing quality control policies and procedures should be modified.
  - c. Additional emphasis should be placed on specific industries or areas for future engagements.
3. The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection—
  - Take remedial action directed toward the individual engagement person.
  - Revise the firm’s quality control policies and procedures.
  - Discipline individuals who fail to follow the firm’s QC policies and procedures.
  - Communicate the findings to those responsible for training and professional development.
4. At least annually, the firm prepares and distributes a formal inspection/review report to all professional personnel. This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such procedures, and (c) any systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them.
5. In addition, the firm is subject every three years to a peer review in accordance with the requirements of the AICPA [Florida State Board of Accountancy]. The managing 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, the engagement letter covering the firm’s peer review will require that the governmental audits selected for review during the firm’s peer review be reviewed by someone who is employed by a member firm of the respective Center. Also information relative to the firm’s most recently accepted peer review is available to the public in accordance with the membership requirements of the respective Centers.

- b. The internal inspection/review results (including those specific to the firm’s governmental audit engagements selected for inspection/review) and monitoring communication are made available to the firm’s peer review team.
6. Based on the results of the firm’s annual inspection/review and, if appropriate, the results of the firm peer review, the managing partner determines any corrective actions that should be pursued to improve, amend, or revise the QC system.
7. 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 managing partner and consider the implication for the firm.
8. The managing partner is responsible for monitoring and documenting the implementation of, and compliance with, any corrective actions.
9. The managing partner periodically reminds personnel during staff meetings that any concerns regarding complaints or allegations may be communicated to the firm without fear of reprisals. The firm appropriately addresses complaint and allegation by—
  - Establishing channels of communication for complaints and allegations through the firm’s website and communicating such information to employees and clients.
  - Investigating complaints and allegations and involving legal counsel if considered necessary. The firm assigns individuals to this process who are trained and knowledgeable about the firm procedures and who are not otherwise involved in the engagement relating to the complaint or allegation.
  - Documenting all complaints and allegations.
10. The firm documents the performance of each element of its QC system on an ongoing basis, as well as in conjunction with documenting its monitoring of the system. Documentation includes—
  - Evidence of the monitoring procedures performed, including how engagements were selected for review.
  - Evaluation of the firm’s adherence to professional standards and regulatory and legal requirements.
  - Evaluation of whether the QC system is appropriately designed and effectively implemented.
  - Evaluation of whether QC policies and procedures are operating effectively so that reports issued are appropriate in the circumstances.
  - Identification of deficiencies noted, an evaluation of their effect on the QC system, and the basis for determining what further actions are necessary, if any.
11. The firm retains monitoring documentation for a time sufficient to allow those monitoring the QC system, including peer reviewers, to evaluate the firm’s compliance with its system. The firm generally retains such documentation until the next peer review report has been completed.