

Linger, Peterson & Shrum

Quality Control Document

Effective August 3, 2020

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

C O N T E N T S

* * *

	<u>Page</u>
Quality Control Document	
Leadership Responsibilities for Quality Within the Firm	1
Relevant Ethical Requirements	2
Acceptance and Continuance of Client Relationships and Specific Engagements	4
Human Resources	6
Engagement Performance	10
Monitoring	14
Engagement Performance Bridging Documents	17

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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

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

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

It is the firm's policy to promote a culture of quality that is pervasive throughout the firm's operations through the development of its system of quality control. Firm management, under the direction of the 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 applicable legal and regulatory 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. The firm dedicates sufficient and suitable resources to its quality control system and quality initiative and assigns the operational responsibility for the firm's quality control system to individuals with the experience, ability, and authority to identify, develop, and implement the necessary quality control policies and procedures based upon their comprehensive understanding of SQCS No. 8. 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 Quality Control Document) do not place commercial considerations ahead of the quality of work performed.
3. The managing partner, audit engagement partners, and other partners in the firm demonstrate the importance of quality by their actions.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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

RELEVANT ETHICAL REQUIREMENTS

It is the firm's policy that all professional personnel be familiar with and follow relevant ethical requirements of the AICPA, contained in the *Code of Professional Conduct*, the State of California Board of Accountancy, and the State of California CPA Society in performing their professional responsibilities. Furthermore, it is the policy of our firm that, for engagements subject to *Government Auditing Standards* and other applicable regulatory agencies, all professional personnel be familiar with and adhere to the relevant ethical requirements included in those standards, including any that may be more restrictive. Additionally, when the firm and its professional personnel encounter situations that raise potential independence threats, but such situations are not specifically addressed by the independence rules of the AICPA *Code of Professional Conduct*, the situation will be evaluated by referring to the *Conceptual Framework for AICPA Independence Standards* and applying professional judgment to determine whether an independence breach exists. The firm takes appropriate action to eliminate threats to independence or mitigate them to an acceptable level by applying safeguards. If effective safeguards cannot be applied, the firm will withdraw from the engagement or take other corrective actions as appropriate to eliminate the breach. The firm ensures compliance with this policy by implementing the following procedures:

1. All personnel have ready access to the relevant ethical requirements to which the firm is subject. The firm expects its personnel to be familiar with those relevant ethical requirements.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

2. All professional personnel who work on accounting and auditing engagements and are required to be independent sign a representation letter when hired and annually thereafter, acknowledging their familiarity with the firm's relevant ethical requirements policy and procedures, particularly with regard to independence. The representation letter also lists known circumstances and relationships that may create a potential threat to independence or violate the firm's relevant ethical requirements policy.
3. Ethics training is provided for professional personnel at least every two years as required by the State of California Board of Accountancy.
4. Certain relevant ethical requirements are addressed by procedures within the work programs and standard forms in the accounting and auditing manuals used by the firm. Such procedures—
 - a. Determine compliance with relevant ethical requirements on each new and recurring client as part of the acceptance and continuance decision.
 - b. Consider unpaid fees.
 - c. Consider any familiarity threat related to senior personnel recurring on an audit or attest engagement for five years or more.
 - d. Annually confirm the independence of another accountant performing work on a group audit or a segment of a review or attestation engagement.
 - e. Identify nonattest services performed for attest service clients and determine if the services threaten independence with respect to that client. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in *Government Auditing Standards*.
 - f. Consider the firm's independence of attest clients at which professional personnel have been offered management positions or have accepted offers of employment.
 - g. Consider whether actual or threatened litigation has an effect on the firm's independence with respect to the client.
 - h. Determine 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.
 - i. Consider whether the firm was party to a cooperative arrangement with a client that was material to the firm or the client.
5. All professional personnel remain alert for any evidence of noncompliance with relevant ethical requirements during the engagement and are required to promptly notify the engagement partner and managing partner of any circumstances or relationships that may create a potential threat to independence or an independence breach, so that appropriate action can be taken.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

6. If a potential threat to independence is identified, the managing partner accumulates and communicates relevant information to appropriate personnel so (a) the managing partner and the engagement partner can determine whether they satisfy independence requirements, (b) the engagement partner can take appropriate action to address identified threats to independence, and (c) current independence information can be maintained. For clients of whom the firm is not independent, only compilation services are performed, and the firm discloses the lack of independence in its accountants' compilation reports for those clients.
7. All relevant ethical requirements matters (including potential issues from the representation letters and those from other sources) are resolved by the managing partner. The managing partner is responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. Documentation of the resolution of a relevant ethical requirements matter is filed in the client's permanent workpapers file.
8. If a breach of independence is identified, the breach and the required corrective actions are promptly communicated to (a) the managing partner, (b) the engagement partner, who (along with the firm) needs to address the breach, and (c) other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action. The engagement partner confirms to the managing partner when required corrective actions related to the independence breach and noncompliance with these policies and procedures has been taken.
9. At least annually, the managing partner reviews the firm's relevant ethical requirements policy and procedures to determine if they are appropriate and operating effectively. See the MONITORING section of this document for further information.

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

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

1. For each prospective client that requests for the first time a compilation, review, audit, or attestation service, the partner making initial contact with the client is required to complete an engagement acceptance form. The 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.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

2. For existing attest clients, the managing partner annually reviews the firm's client list and reevaluates the acceptability of each client and engagement. Furthermore, the engagement work programs used by the firm (as documented in the engagement performance quality control element of the firm's Quality Control 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, if any, were overcome and resolved so that the firm decided to accept or continue the client relationship or specific engagement. Such documentation includes discussion of significant issues, consultations, conclusions, and the basis for the conclusions.
4. If situations occur after the commencement of an engagement and while work is in process that indicate the firm should consider withdrawing from the engagement, the 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 the 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 client. The engagement letter documents the firm's understanding with the client regarding the nature, scope, and limitations of the services to be performed, as well as the identification of the engagement partner and his or her role.
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.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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.

HUMAN RESOURCES

Overall

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

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

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

Recruitment and Hiring

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

1. A recruitment and hiring plan is prepared periodically (as necessary) and is approved by the managing partner. The recruitment and hiring plan is communicated to those involved in the recruitment and hiring process.
2. Recruiting techniques and actual employment decisions are made by the managing partner after considering the needs of the firm.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

3. An Interview and Evaluation Checklist is prepared for each applicant.
4. The firm's personnel policies and procedures relevant to applicants and new employees are communicated to them.

Determining Competencies and Capabilities

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

1. Periodically, the managing partner assesses the competencies and capabilities of engagement partners to help assure engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that appropriate reports are issued in the circumstances. The following competencies and capabilities are assessed based on the characteristics of the particular client, industry, and service provided—
 - a. An understanding of the role of the firm's quality control 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 determines how engagement partners and other personnel can best obtain additionally needed competencies and capabilities.
3. Performance evaluations are conducted, at least annually, to determine the capabilities and competencies possessed by 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:

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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 workload 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 quality control 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. A schedule of all School District assignments is distributed to all professional staff at the beginning of each school season. Other engagement assignments are communicated verbally to the staff.

Professional Development

It is the firm's policy that all professional personnel comply with the continuing professional education requirements of the AICPA, the State of California Board of Accountancy, 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. The managing partner approves professional staff member CPE prior to staff attendance. An individual CPE Record worksheet is prepared by each professional staff member annually.
2. The managing partner monitors employee progress toward meeting the CPE plan.
3. All professional personnel are to obtain a minimum of 40 hours of CPE required 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. The firm will require personnel that perform engagements in specialized areas to attend appropriate CPE annually in the areas of audit planning and documentation, including areas specific to compliance audits.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

4. Individuals who work on audits and attestation engagements subject to the *Government Auditing Standards*, including planning, directing, performing audit procedures, or reporting, complete at least 24 hours of CPE every two years that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book assignments and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book audits are required to also obtain at least another 56 hours (for a total of 80 hours) of CPE that enhances their professional proficiency to perform audits. In other words, everyone working on a Yellow Book engagement must meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement or who do not spend at least 20% of their time annually on Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80 hour requirement.
5. Appropriate CPE documentation is maintained for each professional for the most recent five years.
6. The firm maintains a current library and circulates within the firm important news about new or emerging changes in professional literature or business activities.
7. 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.
8. 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 the firm's policy that performance evaluation, compensation, and advancement decisions for professional personnel be based on a timely and objective evaluation of individual performance, that the professional personnel selected for advancement have the necessary qualifications to fulfill their assigned responsibilities, and that compensation of personnel, including partners, be based on the quality of their work. The firm ensures compliance with this policy by implementing the following procedures:

1. While the firm does not use staff classification levels, staff is assigned to engagements based on their capabilities, competencies, experience, knowledge and availability.
2. All professional staff are verbally evaluated at the completion of engagements of approximately 150 or more hours, or more frequently as needed.
3. At least annually, and on an ad hoc basis if necessary, the partners meet as a committee to discuss advancement, compensation, and termination decisions.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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 these activities are part of the engagement performance element of the quality control system, the firm has chosen to differentiate certain activities within this section of the Quality Control Document for ease of understanding. The activities are segregated as follows:

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

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

Engagement Performance and Documentation

It is the firm'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, applicable legal and regulatory requirements and the firm. In this regard, the firm's engagement performance quality control steps are documented in the firm's engagement performance bridging documents.

The firm has adopted and integrated within its quality control system the use of PPC and Wiley accounting and auditing manuals and practice aids, as more fully described in the Engagement Performance Bridging Documents attached as an appendix to this document. This Quality Control Document, the PPC manuals, and any other practice aids used by the firm are intended solely to assist us in achieving compliance with professional standards. Accordingly, nothing within this Quality Control Document should be construed as (1) requiring a higher level of performance or documentation than the minimum specifically required by our firm's quality control policies and procedures, or (2) overriding the exercise of professional judgment.

Engagement Quality Control Review

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

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

1. The firm establishes criteria for performance of an Engagement Quality Control Review (EQCR). The firm establishes a different set of criteria for each major service provided (i.e., compilation, review, audit, and attestation engagements).
2. All engagements are evaluated against the established criteria. An Engagement Quality Control Review is performed for all engagements that meet the established criteria.
3. The firm periodically evaluates and makes changes to the EQCR criteria as needed based on changes in the structure and nature of the firm's practice.
4. Based on the current composition of the firm's accounting and auditing practice, the firm has concluded that an Engagement Quality Control Review should be performed for all single audit (Uniform Guidance) engagements with federal revenues in excess of \$5,000,000 in which one or more of the partners does not participate in the engagement except in a consulting role, and any engagements accepted in a new industry in which the firm does not have previous experience. Engagements other than those mentioned herein are not required to have an Engagement Quality Control Review.
5. Performing an Engagement Quality Control Review includes the following procedures—
 - Having a discussion with the engagement partner about significant findings and issues.
 - Reading the financial statements or other subject matter information and the proposed report.
 - Reviewing selected engagement documentation relating to the significant judgments of the engagement team and the conclusions reached.
 - Performing an evaluation of the conclusions reached in formulating the report and considering whether the proposed report is appropriate.
 - Reviewing for appropriateness the resolution and conclusions reached regarding differences of opinion and matters requiring consultation.
 - Considering the engagement team's evaluation of the firm's independence in relation to the specific engagement.
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 Quality Control Document) and documentation of the resolution of 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—
 - That the procedures required by firm policies have been performed.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

- That the Engagement Quality Control Review was completed before the report was released.
 - That the reviewer was not aware of any unresolved matters that would have caused him or her to believe that significant judgments the engagement team made and conclusions they reached were not appropriate.
8. The appointment of Engagement Quality Control Reviewers requires consideration of the technical qualifications necessary to perform the role (including the necessary experience and authority), and the degree to which an Engagement Quality Control Reviewer can be consulted during the engagement without jeopardizing the Reviewer's objectivity. In selecting appropriate Engagement Quality Control Reviewers, the following criteria are followed:
- 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) including independence requirements relating to the engagement reviewed.
 - The Engagement Quality Control Reviewer does not make decisions for the engagement team or otherwise participate in the performance of the engagement except in a consulting role. Both the Engagement Quality Control Reviewer and the engagement team are careful to maintain the Reviewer's objectivity.
 - If the objectivity and/or continued eligibility of the Engagement Quality Control Reviewer come into question, the engagement partner will communicate the situation to the managing partner. The Engagement Quality Control Reviewer will be replaced if the Reviewer's ability to perform an objective review is likely to have been impaired.
9. For audit engagements (see Step 4 of this section) for which an EQCR is required, if any, the engagement partner (a) determines that an Engagement Quality Control Reviewer has been appointed; (b) discusses with the Engagement Quality Control Reviewer the significant findings or issues that arose during the audit, if any; and (c) does not release the auditors' report until completion of the EQCR.
10. When the firm does not have qualified personnel to perform the Engagement Quality Control Review, the firm contracts with suitably qualified external individuals or other firms to perform the review. The criteria in Procedure 8 are followed in selecting qualified external Engagement Quality Control Reviewers.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

Consultation and Differences of Opinion

It is the firm's policy that personnel refer to authoritative literature or other sources when appropriate. It is also the firm's policy that all professional personnel seek consultation on a timely basis, within or outside the firm, whenever differences of opinion occur, or uncertainties exist regarding a technical issue. 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. 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.
3. Consultations with individuals outside of the firm who have relevant specialized expertise, including nonaccounting or nonauditing specialists, are approved by the managing partner. Before using an outside individual or specialist, the firm evaluates whether the external provider is qualified for the specific purpose of the consultation.
4. All known relevant facts are provided to those consulted so they can understand the nature and scope of the consultation.
5. All consultations involving difficult or contentious issues are agreed upon by both the individuals seeking consultation and the consulted. Such consultations are sufficiently documented to facilitate understanding of the issue for which the consultation was needed, the results of the consultation, the decisions made and the basis for those decisions, and how those decisions were implemented.
6. If a difference of opinion occurs within the engagement team, between the engagement partner and the engagement quality control reviewer, or with those consulted within or outside the firm, that difference is resolved using Procedures 2, 3, and 4, if possible. If not, the matter is brought to the attention of the managing partner. The managing partner (with the assistance of other practitioners or regulatory entities if desired) resolves the dispute regarding the proper course of action to be taken by the firm on the issue in question. The conclusion reached to resolve the matter of disagreement and how that conclusion was implemented are documented. In addition, any party to the consultation/difference of opinion who disagrees with the final conclusion may document his or her disagreement with the resolution of the matter. The firm will not release the report until any differences of opinion are resolved.
7. For audit engagements, the engagement partner is responsible for ensuring that appropriate consultation is undertaken on difficult or contentious matters. Additionally, the engagement partner ensures that (a) members of the engagement follow the firm's consultation policies during the course of the engagement, (b) the nature and scope of the consultation are agreed upon with the party consulted, (c) the resulting conclusions are understood by the party consulted, and (d) such conclusions are implemented.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

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.

MONITORING

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

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

1. At least annually, the managing partner selects an individual or team to perform inspection/review procedures on the firm's quality control system. Individuals selected as monitoring team members possess adequate technical knowledge and experience and, when practical, are not directly involved in the administration, supervision, or performance of the QC procedures or engagements each will inspect/review. 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 quality control elements other than engagement performance.
2. At the conclusion of the inspection/review, the team captain is responsible for (a) identifying and summarizing the deficiencies noted and (b) discussing the results of the inspection/review with the engagement partners and other appropriate personnel responsible for each of the engagements selected for review and determining whether any corrective action needs to be taken or improvements made with respect to those specific engagements. Audit engagement partners consider whether any deficiencies noted in the monitoring team's communication may affect other audit engagements.
3. The firm pursues one or more of the following actions resulting from its evaluation of the deficiencies noted during inspection/review—
 - Take appropriate remedial action directed toward the individual engagement or person.
 - Revise the firm's quality control policies and procedures.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

- Discipline individuals who failed to follow the firm's quality control policies and procedures.
 - Communicate the findings to those responsible for training and professional development.
4. If monitoring procedures indicate that required engagement procedures were not performed or that an issued report is inappropriate, the firm determines what further actions are needed to comply with relevant professional standards and applicable legal and regulatory requirements. Depending upon the specific situation, the firm may obtain legal advice.
 5. At least annually, the firm prepares and distributes a formal monitoring report to engagement partners and the managing partner. This annual monitoring communication provides a description of (a) the monitoring procedures performed, (b) the conclusions reached from such procedures, and (c) any systemic, repetitive, or other significant deficiencies noted and the corrective actions taken to resolve them. Audit engagement partners consider whether any deficiencies noted in the firm's communication may affect their audit engagements.
 6. In addition, the firm is subject every three years to a peer review in accordance with the requirements of the AICPA and the State of California 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. The internal inspection/review results (including those specific to the firm's governmental audit engagements selected for inspection/review) and annual monitoring communication are made available to the firm's peer review team.
 7. Based on the results of the ongoing monitoring of the quality control system, the firm's annual inspection/review, the monitoring communication, and, if appropriate, the results of the firm's peer review, the managing partner determines any corrective actions that should be pursued to improve, amend, or revise the quality control system.
 8. 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 reprisal. The firm is particularly interested in complaints and allegations about the firm's noncompliance with professional standards, applicable legal and regulatory requirements, or the firm's system of quality control. The firm appropriately addresses complaints and allegations by—
 - Establishing channels of communication for complaints and allegations through the firm's email system 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 firm procedures and who are not otherwise involved in the engagement relating to the complaint or allegation.
 - Documenting all complaints and allegations.

Linger, Peterson & Shrum
Quality Control Document
Effective August 3, 2020

9. The firm documents the performance of each element of its quality control system on an ongoing basis, as well as in conjunction with documenting its monitoring of the system. The firm retains documentation evidencing the operation of its quality control policies and procedures for a time sufficient to allow those monitoring the quality control system, including peer reviewers, to evaluate the firm's compliance with its system.

ENGAGEMENT PERFORMANCE

BRIDGING DOCUMENTS

EFFECTIVE AUGUST 3, 2020

ENGAGEMENT PERFORMANCE BRIDGING DOCUMENT		
Engagement Performance Quality Control Steps	Audits	Audits Under AU-C940
1. Evaluate whether to accept/continue the engagement, considering ethical requirements (including if nonattest services create an independence threat); the client's integrity and the firm's competence, capabilities, time and resources.		
2. Obtain an engagement letter.		
3. Assign staff based on competence, capabilities and availability.		
4. Develop a preliminary audit strategy, including consideration of more than one component, use of specialists and/or service organizations.		
5. Determine and document planning materiality and performance materiality.		
6. Hold an engagement team discussion about the susceptibility of the financial statements to material misstatement due to error or fraud.		
7. Perform preliminary analytical procedures.		
8. Inquire of management and perform other risk assessment procedures to obtain an understanding of the entity and its environment, including internal control.		
9. Identify and assess risks of material misstatement (including fraud risks) and develop responses to identified risks.		
10. Prepare an audit plan.		
11. Develop a time estimate. (OPTIONAL)		
12. Obtain partner approval of the audit plan and staff assignments and, if applicable, time estimates.		
13. Test, evaluate and document design and operating effectiveness of internal controls. (OPTIONAL)		
14. Perform and document further audit procedures.		
15. Supervise procedures (including work of other auditors).		
16. Obtain legal representation letters.		
17. Summarize, evaluate and conclude on the effect of accumulated misstatements.		
18. Assist in drafting the financial statements. (OPTIONAL)		
19. Perform final analytical review.		
20. Complete a presentation and disclosure checklist and read the financial statements.		
21. Obtain a management representation letter.		
22. Evaluate management's report on internal control for completeness and propriety.		
23. Draft the report.		
24. Consider and document changes from the audit strategy, planning materiality or audit plan.		
25. Review the workpapers.		
26. Determine that all review points and open items have been cleared.		
27. Obtain an engagement quality control review, if required by firm policy.		
28. Obtain consultation when appropriate and document and implement conclusions.		
29. Resolve any differences of opinion and document and implement conclusions.		
30. Determine that all quality control engagement level procedures have been performed.		
31. Prepare required client communications.		
32. Have the partner sign the report or transmittal letter.		
33. Evaluate the staff's performance.		
34. Maintain the confidentiality, safe custody, integrity, accessibility and retrievability of the workpapers.		
35. Assemble and retain the workpapers for a sufficient period of time (subject to monitoring review).		

ENGAGEMENT PERFORMANCE BRIDGING DOCUMENT

Engagement Performance Quality Control Steps	Preparations	Compilations	Reviews
1. Evaluate whether to accept/continue the engagement, considering ethical requirements (including if nonattest services create an independence threat); the client's integrity and the firm's competence, capabilities, time and resources.			
2. Obtain a signed engagement letter.			
3. Assign staff based on competence, capabilities and availability.			
4. Evaluate the propriety of a step down to a lower level of service. (OPTIONAL)			
5. Obtain an understanding of the entity's financial reporting framework and significant accounting policies and plan the work.			
6. Consider potential fraud implications.			
7. Prepare an engagement plan.			
8. Develop a time estimate. (OPTIONAL)			
9. Obtain partner approval of engagement plan and staff assignments and, if applicable, time estimates.			
10. Perform and document the procedures.			
11. Supervise procedures (including work of other accountants).			
12. Draft (or assist in drafting) the financial statements/financial information.			
13. Complete a presentation and disclosure checklist (if applicable) and read the financial statements/financial information.			
14. Obtain a management representation letter. (OPTIONAL)			
15. Draft the report.			
16. Review the workpapers.			
17. If information is incorrect, incomplete or otherwise unsatisfactory, obtain revised information/perform additional procedures.			
18. Determine that all review points and open items have been cleared.			
19. Obtain an engagement quality control review, if required by firm policy.			
20. Obtain consultation when appropriate and document and implement conclusions.			
21. Resolve any difference of opinion and document and implement conclusions.			
22. Have the partner sign the report.			
23. Evaluate the staff's performance. (OPTIONAL)			
24. Maintain the confidentiality, safe custody, integrity, accessibility and retrievability of the workpapers.			
25. Assemble and retain the workpapers for a sufficient period of time (subject to monitoring review).			