



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
 DEPARTMENT OF AUDIT
 DIVISION OF LOCAL GOVERNMENT AUDIT

COMPTROLLER'S GUIDELINES

Evaluation of Contracted Auditors with Deficient Peer Review / Audit Documentation Review

The following table and proposed actions are utilized by our office in evaluating the results of peer reviews and audit documentation reviews with deficiencies.

Possible Actions for Review Conditions: (See Table) (Fail, Pass with Deficiencies, Significant or Numerous Review Comments)

Purpose

To ensure that the work conducted by public accounting firms on behalf of the Comptroller's Office meets the requirements of *Government Auditing Standards*, OMB Circular A-133, and the Comptroller's *Audit Manual*.

Guidelines

Based on an analysis of the firms recent peer review(s) or audit documentation review(s), the Comptroller's Office will formulate a recommended action plan. Typical recommended actions are outlined in our "Comptroller Guidelines for Evaluating the Results of Peer Reviews and Audit Documentation Reviews" table.

Definition

Review Before Release Process (G:)

The review before release process is the final action taken by the Comptroller's Office to determine whether a firm may continue to conduct audits on behalf of the Comptroller's Office. The process requires that audit documentation be submitted to the Comptroller's Office for review and comment prior to the official release of the related audit report. Significant audit documentation deficiencies will generally result in the firm being barred from conducting further audits for the Comptroller's Office. The firm may or may not be permitted to fulfill any obligations under contracts already approved.

A: Accelerate Review (ADR)

Change (accelerate) the normal Audit Documentation Review (ADR) cycle of the firm.

B: Pass Rating Next Peer Review

Require that a "pass" rating be received on the firm's next peer review.

C: No Action Based on TSCPA Follow-Up

No action taken based on a TSCPA follow-up limited review by the firm conducting the peer review.

D: Additional CPE

Require a partner with the firm to sign a document agreeing that all or some of the members of the audit team be required to take additional CPE in the area(s) where audit documentation or peer review deficiencies were noted.

E: Contracted Independent ADR

Require a partner with the firm to sign a document agreeing to hire an independent CPA firm, other than the firm that conducted the most recent peer review, to review the work of each audit conducted on behalf of the Comptroller's Office for a specified time frame, a specified number of audits, or until otherwise notified. The reviews must be conducted using the Comptroller's audit documentation review checklist and the completed checklists must be submitted to the Comptroller's Office.

F: Limitation of Contracted Audits

Limit the audits that may be conducted by the firm to a certain number of audits or to a specific entity type.

G: Audit Documentation Review (ADR) Before Release

Require that a partner with the firm sign a document agreeing to be subject to a "Review before Release Process." (See definition)

H: Honor Current Contracts Only

Honor all outstanding Contracts to Audit and not approve any further Contracts to Audit submitted by the firm.

I: Rescind Outstanding Audit Contracts

Rescind all outstanding Contracts to Audit on file for the firm and no longer approve Contracts to Audit submitted by the firm.

J: Any Combination or Other

Any combination of actions or any other action agreed on by the Comptroller's Office.

Table: Comptroller Guidelines for Evaluating the Results of Peer Reviews (PR) and Audit Documentation Reviews (ADR)

Condition/Possible Action	A: Accelerate Review (ADR)	B: Pass Rating Next Peer Review	C: No Action Based on TSCPA Follow-Up	D: Additional CPE	E: Contracted Independent ADR	F: Limitation of Contracted Audits	G: ADR Before Release	H: Honor Current Contracts Only	I: Rescind Outstanding Audit Contracts	J: Any Combination or Other
<i>Peer Reviews (PR)</i>										
Fail rating	X	X	X							X
Fail rating – two consecutive cycles							X			X
Pass with deficiencies – two consecutive cycles	X	X	X	X	X					X
Pass with deficiencies – three consecutive cycles							X			X
Pass with deficiencies – prior review had a fail rating							X			X
<i>Comptroller Audit Documentation Reviews (ADR)</i>										
Significant comments (while firm is on a normal review cycle)	X									X
Significant comments (while firm is on an accelerated review cycle)				X	X	X				X
Numerous significant comments (while firm is on a normal review cycle)				X	X	X	X			X
Numerous significant comments (while firm is on review before release process)								X	X	X
<i>Other</i>										
Independent review ⁽¹⁾ with some or numerous significant comments							X			X

⁽¹⁾ Review conducted by an independent accounting firm hired by a CPA to comply with the Comptroller’s Office’s request.