



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

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*, Uniform Guidance, the Contract to Audit Accounts, and the Comptroller's *Audit Manual*.

Guidelines

Audit firms will be evaluated based on any or all of the following:

- a) peer review(s),
- b) audit documentation review(s),
- c) compliance with the Contract to Audit Accounts,
- d) compliance with the *Audit Manual*.

The Comptroller's Office will formulate an action plan based on the evaluation. Typical actions are outlined in our "Comptroller Guidelines for Evaluating the Results of Peer Reviews (PR), Audit Documentation Reviews (ADR), and Compliance with Contract to Audit Accounts and/or *Audit Manual*" table.

COMPTROLLER'S GUIDELINES

Evaluation of Contracted Auditors with Deficient Peer Review (PR) / Audit Documentation Review (ADR) / Compliance with Contract to Audit Accounts and/or *Audit Manual*

The following table and proposed actions are utilized by our office in evaluating the results of peer reviews, audit documentation reviews, and compliance with the Contract to Audit Accounts and/or *Audit Manual*.

Possible Actions for Identified Conditions:

(Fail, Pass with Deficiencies, Significant or Numerous Review Comments, Lack of Compliance with Contract to Audit Accounts and/or *Audit Manual* Requirements)

(See Table)

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 the Tennessee State Society of CPAs (TSCPA) (or other regulatory body) peer review committee's corrective action(s) required. Our office will require documentation demonstrating that the required corrective actions were performed and accepted by the committee.

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 Before Release

Require a partner with the firm to sign a document agreeing to hire an independent CPA firm 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. Results of any pre-issuance review 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 and/or to a specific entity type.

G: Honor Current Contracts Only

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

H: 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.

I: Other

Any other action(s) agreed on by the Comptroller's Office.

Table: Comptroller Guidelines for Evaluating the Results of Peer Reviews (PR), Audit Documentation Reviews (ADR), and Compliance with Contract to Audit Accounts and/or *Audit Manual*

Possible Action Can Be Any Marked Action Below or a Combination of Marked Actions									
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 Before Release (1)	F: Limitation of Contracted Audits	G: Honor Current Contracts Only	H: Rescind Outstanding Audit Contracts	I: Other
<i>Peer Reviews (PR)</i>									
Fail rating	X	X	X	X	X	X	X		X
Fail rating – two consecutive cycles								X	X
Pass with deficiencies – two consecutive cycles	X	X	X	X	X	X	X		X
Pass with deficiencies – prior review had a fail rating	X	X	X	X	X	X	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	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>									
Receive significant comment(s) from Independent CPA Firm ADR before release	X			X	X	X	X		X

<i>Contract to Audit Accounts and Audit Manual Compliance</i>									
Consistent late submission of audit report(s).						X	X		X
Lack of compliance with <i>Audit Manual</i> requirements.						X	X	X	

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