Appendix O

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each deficiency discussed in the report. If the reviewed firm disagrees with one or more of the deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

[Addressed to the peer review committee of the administering entity]

Ladies and Gentlemen:

This letter represents our response to the report on the Engagement Review of our firm’s accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

1. As recommended by the reviewer, the entire staff has participated in continuing professional education related to reporting and disclosures, with a particular focus on areas specific to the industries that we are engaged in. We will be performing a pre-issuance review by a partner not associated with the engagement to make sure that the accountant’s report is appropriately modified when the financial statements depart from applicable professional standards.

2. Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant’s inquiry and analytical procedures, is included in the working papers.

We believe these actions address the matters noted by the reviewer.

Sincerely,

[Name of firm]

1 The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.
2 The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.
3 The numbering of responses, to coincide with the numbered comments in the report, is optional.
4 Signed by an authorized partner of the firm.
Appendix Q

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Fail in an Engagement Review

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions to prevent the recurrence of each of the significant deficiencies. If the reviewed firm disagrees with one or more of the significant deficiencies or recommendations in the report, the reviewed firm should contact the administering entity for assistance. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 116 of the standards. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see paragraphs 136–140, “Accepting System and Engagement Reviews”). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity.

October 31, 20XX

[Addressed to the peer review committee of the administering entity]¹

Ladies and Gentlemen:

This letter represents our² response to the report on the Engagement Review of our firm’s accounting practice for engagements submitted for review with periods ending during the year ended June 30, 20XX.

³To prevent the recurrence of the deficiencies noted by the reviewer and to prevent other such deficiencies from occurring, we will review the professional standards related to the deficiencies and ensure that the professional standards will be complied with on all future engagements.

Specifically, we have strengthened the engagement review to ensure that management representation letters are obtained for all review engagements performed by the firm.

All personnel who work on accounting engagements will be participating in continuing professional education in disclosures and reporting by December 31, 20XX, to address the disclosure and reporting deficiencies noted by the reviewer. In addition, we have started using a third-party reporting and disclosure checklist to ensure all reporting and disclosure matters are appropriately addressed. The reporting and disclosure checklist is tailored to specialized industries, where applicable.

The firm is now using third-party practice aids for guidance in compilations of financial statements for management use only, and this includes engagement letters that conform to professional standards to document the client’s understanding with respect to these engagements. We believe these actions are responsive to the deficiencies noted on the review.

Sincerely,

[Name of firm]⁴

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¹ The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee.
² The response should use the singular I, me, and my only when the reviewed firm is a sole practitioner.
³ The numbering of responses, to coincide with the numbered comments in the report, is optional.
⁴ Signed by an authorized partner of the firm.