Appendix F

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Pass With Deficiencies in a System 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 a 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. If the firm still disagrees after contacting the administering entity, the firm’s response should describe the reasons for such disagreement. For more information related to disagreements, see paragraph 93 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 team captain for review and comment prior to the firm submitting the response to the administering entity.

[Reviewed firm’s letterhead] September 21, 20XX

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

Ladies and Gentlemen:

This letter represents our² response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. The corrective actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1.³ The firm modified its quality control policies and procedures to require the use of practice aids to document procedures performed on review and compilation engagements, especially for accounts and notes payable. Partners were instructed to ensure that these aids were being utilized appropriately when reviewing engagements. This policy was discussed in a recent training session held in connection with a recent firm-wide staff meeting.

2. The firm also modified its quality control policies and procedures to place a greater emphasis on partner involvement in the planning stage of all audit engagements. The revised policies and procedures require the engagement owner to document his or her timely involvement in the planning process in the planning section of the written work program. The importance of proper planning, including timely partner involvement, to quality work was emphasized in the training session previously referred.

3. In addition, at that training session, the importance of proper use of the firm’s reporting and disclosure checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on industry specific disclosure issues.

As previously mentioned, these corrective actions will also be emphasized in our monitoring procedures and internal inspection.

We believe these actions are responsive to the findings of 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.
Appendix J

Illustration of a Response by a Reviewed Firm to a Report With a Peer Review Rating of Fail in a System 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 a recurrence of each of the significant deficiencies discussed in the report. 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 more information related to disagreements, see paragraph 93 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 team captain for review and comment prior to the firm submitting the response to the administrating entity.

November 30, 20XX

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

Ladies and Gentlemen:

This letter represents our² response to the report issued in connection with the peer review of the firm’s system of quality control for the accounting and auditing practice in effect for the year ended June 30, 20XX. All issues have been brought to the attention of personnel at a meeting held on November 22, 20XX. In addition, steps have been added to our monitoring procedures to review the deficiencies noted in the report so that they will not happen again.

1. Several of the deficiencies noted by the review team included missing or incomplete audit and review documentation. All individuals with responsibility for managing audit and accounting engagements have been re-oriented to their responsibility to ensure the applicable professional standards for performing and documenting engagements are followed. In addition, we have implemented a concurring partner review on all audit and review engagements, and the quality of audit documentation will be a focus of the concurring partner’s review.

2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits, development stage companies, and other industries that are similar to ours. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar.

3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use.

4. At the staff meeting previously mentioned, the importance of proper use of the firm’s reporting and disclosure checklist was discussed, including the use of checklists for specialized industries. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm’s CPE plan for partners and managers now includes annual updates on disclosure issues.

The firm is committed to strengthening its monitoring policies and procedures, especially as they relate to a timely post-issuance review of engagements. We have acquired quality control materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and this individual will be available for consultation and guidance.

Sincerely,

[Name of Firm] ⁴

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.