

PRP Section 3600

Guidance for Writing Letters on Corrective Actions and Implementation Plans by Outside Parties

Contents

<i>Section</i>	<i>Paragraph</i>
3600 Guidance for Writing Letters on Corrective Actions and Implementation Plans by Outside Parties	
Introduction01–.02
Objectives03–.04
General Guidelines05–.08
Illustrative Letters09
Exhibits	
A. Sample Letter on an Outside Party’s Revisit—Corrective Action10
B. Sample Letter on an Outside Party’s Review of a Subsequent Engagement—Corrective Action11
C. Sample Letter on an Outside Party’s Review of a Subsequent Engagement—Implementation Plans12

Introduction

.01 A report with a peer review rating of pass with deficiencies or fail or a pass report that included an implementation plan in relation to a finding for further consideration (FFC) form due to an engagement deemed not to be performed or reported on in accordance with professional standards in all material respects may be accepted by a report acceptance body (RAB) with the understanding that the firm will (a) engage the team captain or another party acceptable to the committee (hereinafter referred to collectively as “outside party”) to review the adequacy of certain corrective actions or implementation plans taken by the firm by performing specified procedures and (b) allow the outside party to communicate the results of its procedures to the RAB.

.02 The purpose of these guidelines is to provide assistance to outside parties engaged to assist the firm in one or more corrective actions or implementation plans taken by a reviewed firm as a result of a peer review—other than an accelerated peer review. If the firm elects to have an accelerated review as an alternative to completing a corrective action of post-issuance review or team captain revisit required by the RAB, or in rare circumstances the RAB requires the reviewed firm to have an accelerated peer review, then the reviewed firm and the reviewer should adhere to the “Standards for Performing and Reporting on Peer Reviews” (see PRP §1000). The RAB should not require an accelerated review as an implementation plan. However, the reviewed firm may elect to have an accelerated review as an alternative to completing an implementation plan of postissuance review or submission of the firm’s monitoring report to an outside party, in which case the reviewed firm and reviewer should adhere to the “Standards for Performing and Reporting on Peer Reviews” (see PRP §1000).

Objectives

.03 The objective of the outside party’s assistance is to determine objectively whether the firm took one or more actions it agreed to as a result of a peer review and is not intended to be a substitute or a replacement for a peer review. Although the procedures performed may not be sufficient to enable the outside party to express an opinion on whether the corrective action or implementation plan achieved the goal for which it was designed or whether the action has been implemented in all required situations, the procedures should be sufficient to provide the outside party with sufficient information to evaluate the reviewed firms compliance with the corrective action or implementation plan.

.04 At the conclusion of the outside party’s assistance, the outside party should issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures. The letter should be sufficiently comprehensive—but concise—to enable the RAB to conclude on the adequacy of the reviewed firm’s corrective action(s) or implementation plan(s) to which the firm committed. The outside party’s letter or report should be written as a private communication between the outside party and the RAB. However, the outside party should send the reviewed firm a copy of the letter or report.

General Guidelines

.05 The outside party should obtain a clear understanding of the corrective actions or implementation plans agreed to by the firm and the procedures that need to be performed by obtaining a copy of the firm’s most recent peer review report; the firm’s letter of response, if applicable; and the acceptance letter describing the corrective actions or implementation plans required by the RAB. Also obtaining the FFC forms may assist the outside party in planning and performing his or her procedures on the corrective actions or implementation plans related to the pass with deficiency or fail report.

.06 The outside party should design and perform appropriate procedures to provide him or her with sufficient information to evaluate the reviewed firm’s compliance with the corrective action(s) or implementation plan(s). In certain circumstances, the outside party may wish to confirm the appropriateness of the procedures to be performed with the administering entity’s peer review committee, its RAB, or technical reviewer.

.07 The outside party should summarize the procedures performed and the conclusions reached as a result of those procedures, and discuss those conclusions with the reviewed firm. During the discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any deficiencies or significant deficiencies or take additional steps to address any findings noted during the outside party’s procedures because they will likely be mentioned in the outside party’s letter or report.

.08 The outside party should send a letter or report to the RAB describing the procedures performed and conclusions reached.

The letter or report should be issued on the letterhead of the outside party's firm, addressed to the administering entity's RAB with a copy to the reviewed firm, and include the following elements—

- a.* A description of the corrective actions or implementation plans required by the RAB.
- b.* A description of the representations made by the reviewed firm regarding the changes made by the firm since its most recent peer review.
- c.* A description of the procedures performed by the outside party.
- d.* A summary of the results of the outside party's procedures, including a description of any representations made by the reviewed firm regarding further planned actions and the outside party's comments on the appropriateness of those actions. The outside party may consider recommending additional corrective actions or implementation plans if he or she believes the results reveal continued weaknesses in the reviewed firm's system of quality control.
- e.* Information enabling the RAB to evaluate whether the firm has improved. A statement that the letter or report is intended for limited distribution to the administering entity's peer review committee or its report acceptance body and the reviewed firm, and is not intended as a substitute or replacement for the peer review documents issued on the firm's peer review.

Illustrative Letters

.09 The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.

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Exhibit A

SAMPLE LETTER ON AN OUTSIDE PARTY'S REVISIT—CORRECTIVE ACTIONS

[*Outside Party's Firm Letterhead*]

September 13, 20XX

[*Name and Address of the Report Acceptance Body*]

Dear Committee Members:

This letter is written to assist [*Reviewed Firm's Name*] in complying with certain actions the firm voluntarily agreed to take in connection with the [*Name of the Report Acceptance Body*]'s consideration of acceptance of its 20XX peer review report and response thereto.

The [*Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body*] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to:

- a. Review the planning for the firm's 20XX inspection program in advance.
- b. Revisit the firm at the end of its 20XX inspection to review the results (with emphasis on those items noted in the 20XX peer review) and the corrective actions taken on the deficiencies or significant deficiencies noted, and
- c. Provide a written communication on the firm's inspection to the Committee by September 30, 20XX.

Prior to the firm performing its 20XX inspection, I performed the following procedures:

- a. Reviewed a copy of the firm's 20XX peer review report, Finding for Further Consideration (FFC) forms (if applicable), the firm's letter of response, and the acceptance letter describing the required corrective actions.
- b. Reviewed the firm's inspection planning documentation.

I revisited the firm on September 9, 20XX, after the completion of its 20XX inspection. During that revisit, I performed the following procedures—

- a. Discussed the corrective actions described in its letter of response with the firm to determine if the actions have been fully implemented.
- b. Reviewed the firm's inspection report and underlying documentation of its performance, including the engagement review checklists prepared during the inspection.
- c. Reviewed the working papers of selected engagements included in the inspection and any changes in the firm's quality control materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 20XX peer review.
- d. Discussed the inspection results and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.

Discussed in the following sections are the results of the procedures I performed and a description of the firm's representations regarding planned corrective actions.

Procedures on the Audit of a Pension Plan

The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test participant data and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed the necessary tests. I reviewed this documentation before the firm's peer review documents were presented to the Committee. The firm's letter of response indicated it would obtain an industry specific audit program and update its library to include the AICPA Audit and Accounting Guide for Audits of Employee Benefit Plans.

Revisit Results

The firm did not obtain a copy of the AICPA Audit and Accounting Guide and my review of a recently-completed employee benefit plan audit subject to ERISA showed an industry specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained and alternative procedures were not performed. The partner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year's working papers.

Planned Corrective Actions

The firm represented that the AICPA Audit and Accounting Guide and a industry-specific practice aid that includes model audit programs have now been ordered. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting employee benefit plan audits (including those subject to ERISA) to 8 hours of CPE audits of employee benefit plans.

Performance of Audits Subject to *Government Auditing Standards* and A-133

The firm performed several audits subject to the requirements OMB Circular A-133. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the partner responsible for the engagement was not in compliance with the "Yellow Book" CPE requirement. The firm performed the omitted audit procedures and issued the missing reports which I reviewed before the firm's peer review documents were presented to the Committee. The firm's letter of response stated that the partner would take the necessary CPE.

Revisit Results

My review of an A-133 audit performed subsequent to the firm's peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE. However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity's internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

Planned Corrective Actions

The firm represented that it plans to conduct a training session for partners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct partners to focus on documentation during their review process and will amend the partner review checklist to add this focus.

Reports on Compiled Interim Financial Statements

The deficiency related to the firm's failure to issue accountants' compilation reports on monthly computer generated financial statements. The firm's letter of response stated that the firm would revise its quality control policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

Revisit Results

The firm adopted a policy requiring the partners to ensure that an accountant's report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the financial statements were presented using a special purpose framework (cash basis). This reporting error occurred because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on SSARS engagements and did not have any third-party reference material. In addition, the firm's accounting personnel had not taken any recent continuing professional education (CPE) courses relating to SSARS engagements.

Planned Corrective Actions

The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in preparing and/or reviewing compilation engagements will take 8 hours of CPE in SSARS within the next month. To assess the effectiveness of using the new checklist, the firm represented that it plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

Summary

The firm's inspection appears to have been comprehensive, suitably designed and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, the firm's inspection failed to identify the issues found during the revisit, as previously discussed. As a result, I believe the Committee should further monitor the firm's corrective actions because the results of the revisit procedures revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party sufficiently experienced in the industries in which the firm's clients operate to perform a preissuance review of the firm's audits of employee benefit plans and those subject to *Government Auditing Standards*.

This letter is intended solely for the information and use of the [*Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body*] and the owners of [*Reviewed Firm's Name*], and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,

[*Outside Party's Signature*]

cc: [*Reviewed Firm's Name*]

.11

Exhibit B**SAMPLE LETTER ON AN OUTSIDE PARTY'S REVIEW OF A
SUBSEQUENT ENGAGEMENT—CORRECTIVE ACTIONS**

[Outside Party's Firm Letterhead]

July 21, 20XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist [Reviewed Firm's Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]'s consideration of acceptance of its 20XX peer review report and response thereto.

The [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm's peer review, and communicate to the Committee in writing on the results of that review by July 31, 20XX.

I performed the following procedures—

- a. Reviewed a copy of the firm's 20XX peer review report, Finding for Further Consideration (FFC) forms (if applicable), and the firm's letter of response, and the acceptance letter describing the required corrective actions.
- b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA "Not-for-Profit Audit Engagement Checklist."
- c. Discussed with the firm the review results and the corrective action plan, and evaluated the feasibility of the firm achieving its plan.

While performing the procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm represented that it will conduct a "refresher" training session on disclosures for all owners and professional staff and also will instruct owners to focus on disclosures during their review process.

Because only minor matters were found on the engagement I reviewed, I believe no further monitoring of the firm by the [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] is necessary at this time.

This letter is intended solely for the information and use of the [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] and the owners of [Reviewed Firm's Name], and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,

 [Signed by Outside Party's Firm]

cc: [Reviewed Firm's Name]

.12

Exhibit C**SAMPLE LETTER ON AN OUTSIDE PARTY'S REVIEW OF A
SUBSEQUENT ENGAGEMENT—IMPLEMENTATION PLANS**

[Outside Party's Firm Letterhead]

July 21, 20XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist [Reviewed Firm's Name] in complying with certain actions that the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]'s consideration of acceptance of its 20XX peer review report and response thereto.

The [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the committee chair, to review the working papers of an audit engagement issued subsequent to the firm's peer review, with a focus on analytical procedures, and to communicate to the committee in writing on the results of that review by July 31, 20XX.

I performed the following procedures:

- a. Reviewed a copy of the firm's 20XX peer review report, finding for further consideration (FFC) forms; and the firm's letter of response, if applicable, and the acceptance letter describing the required implementation plans.
- b. Reviewed the working papers for a not-for-profit audit engagement subject to *Government Auditing Standards* issued subsequent to the peer review to determine whether analytical procedures were performed in accordance with professional standards in all material respects. I documented my review using the AICPA's "Governmental Audit Engagement Checklist."
- c. Discussed with the firm the review results and implementation plan, and evaluated the feasibility of the firm achieving its plan.

While performing the preceding procedures, I found some minor incomplete documentation regarding the assessment of the reliability of data used to perform the analytical procedures. The firm represented that it will conduct a "refresher" training session on analytical procedures for all owners and professional staff and also will instruct owners to focus on analytical procedures during their review process.

Because only minor matters were found on the engagement that I reviewed, I believe that no further monitoring of the firm by the [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] is necessary at this time.

This letter is intended solely for the information and use of the [Name of the Administering Entity's Peer Review Committee or its Report Acceptance Body] and the owners of [Reviewed Firm's Name], and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,

 [Signed by Outside Party's Firm]

cc: [Reviewed Firm's Name]

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