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# EXPOSURE DRAFT

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## PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

- **Modifications to Peer Review Report to Specifically Disclose the Selection and Review of Single Audits as Must-Select Engagements**
- **Modifications to Representation Letter to Reflect Scope of Engagements Performed and Selected**

**August 17, 2016**

**Comments are requested by September 30, 2016**

**Prepared by the AICPA Peer Review Board for comment from persons interested in the AICPA Peer Review Program**

**Comments should be received by September 30, 2016 and addressed to  
David S. Andrews, Technical Manager – Peer Review  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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August 11, 2016

The AICPA Peer Review Board (Board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)*.

Written comments or suggestions on any aspect of this exposure draft will be appreciated and must meet the following criteria:

- Be received by September 30, 2016
- Should be sent to David S. Andrews at [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)
- Should refer to the specific paragraphs and include supporting reasons for each comment or suggestion
- Should be limited to those items presented in the exposure draft

The exposure draft includes the following:

- An explanatory memorandum of the proposed revisions to the *Standards* and Interpretations. The current *Standards* and Interpretations referenced herein includes revisions approved by the Board through August 11, 2016 that are not effective until reviews commencing on or after January 1, 2017.
- Explanations, background and other pertinent information
- Marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes
  - Items that are being deleted from the *Standards* and Interpretations are struck through
  - New items are underlined

A copy of this exposure draft and the current *Standards* are also available on the AICPA Peer Review website at

<http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

Anita M. Ford  
Chair, AICPA Peer Review Board

## AICPA Peer Review Board

### Peer Review Board Members 2015 – 2016

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Dawn Brenner\*  
William Calder\*  
James Clausell\*  
Albert Denny  
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Keith Rowden  
Debra Seefeld  
Martin Shannon  
Todd Shapiro  
Thomas W. Whittle III

*\*Member—Peer Review Board Standards Task Force*

### Non-Peer Review Board Standards Task Force Members 2015 – 2016

Jerry Cross

Heather Trower

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Public Practice and Global Alliances

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AICPA Peer Review Program

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AICPA Peer Review Program

Susan Lieberum  
Associate Director  
AICPA Peer Review Program

LaVonne Montague  
Senior Technical Manager  
AICPA Peer Review Program

David S. Andrews  
Technical Manager – Peer Review  
AICPA Peer Review Program

# Explanatory Memorandum

## Introduction

This memorandum provides background on the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes:

- Modifies the illustrative peer review reports for System Reviews to specifically state that a single audit was selected and reviewed in the scope of a peer review, if applicable
- Modifies firm representation letter to identify the performance of must-select engagement(s) by the firm and the selection and review of such must-select engagements in the scope of the peer review.

This memorandum solicits input on the proposal from all interested parties.

## Background

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest. The AICPA Peer Review Program (Program) monitors the quality of the accounting and auditing practices of the firms enrolled in the Program. This monitoring relies on the integrity of all firms to comply with the peer review enrollment and the peer review scope requirements of the Program.

As we continue our efforts to better identify firm and engagement populations subject to peer review (as discussed in the 6-Point Plan to Improve Audits), we find firms that have not enrolled in peer review as required by AICPA by-laws and certain “must select” engagements omitted from the scope of peer review. Firms that are not enrolled in peer review when required are referred to the AICPA Professional Ethics Division or other appropriate regulatory or enforcement bodies. Firms that omit must select engagements from the scope of peer review have their acceptance letter for that review recalled. In addition, when we determine that firms with a current review that has not yet been accepted omitted must select engagements from their background information we will, depending on the status of the review, contact administering entities, team captains, or technical reviewers to ensure that a must select engagement is selected for review.

During a recent Federal Audit Clearinghouse (FAC) completeness project to determine whether firms that performed engagements subject to the Single Audit Act (Single Audits) were in compliance with peer review requirements, we identified each of the scenarios mentioned above. However, we also noted that some of the data on firms that performed Single Audits could not conclusively identify that such an engagement was included in the firms’ most recently accepted peer review. Due to workpaper retention guidelines, the workpapers for those reviews usually are no longer available. In addition, even though peer review reports disclose the fact that engagements subject to *Government Auditing Standards* were selected, the specific disclosure of the selection of Single Audit engagements is not. Therefore, staff could not rely on peer review

reports to determine if Single Audits were selected. Also, proposed changes to the firm representation letters for system peer reviews provide enhanced accountability by requiring the firm to specify the types of must-select engagements performed by the firm and selected by the peer reviewer for review. .

This Exposure Draft recommends several measures to align with Interpretation 63-1 and provides additional accountability for the performance, selection, and identification of all must-select engagements during peer review. The proposed revisions are as follows:

- The “Required Selections and Considerations” (must-select) paragraph in the system peer review reports should be modified to specify, when appropriate, the selection and review of a Single Audit in the scope of the review.
- The representation letter provided by the firm should be modified for consistency to address all must-select engagements, including single audits, when performed by the firm and selected by the peer reviewer.

## **Explanation of Proposed Changes**

### **Revisions to *Standards* re: Modification of Required Selections and Considerations Paragraph in System Peer Review Reports**

The proposed changes to the must-select paragraph in the Illustrative System Peer Reports:

- Appendix C (Standards par. 209)
- Appendix D (Standards par. 210)
- Appendix E (Standards par. 211)
- Appendix G (Standards par. 213)
- Appendix I (Standards par. 215)
- Appendix K (Standards par. 217)

#### **Required Selections and Considerations**

Engagements selected for review included (engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and SOC 2 engagements].)

- Appendices C, D, E, G, I, and K related footnotes relative to the Required Selections and Considerations paragraphs of the Illustrative System Peer Review Report

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-

dealers, examinations or service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations 63-1, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under Government Auditing Standards (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate the compliance audit requirements under the Single Audit Act, this portion of the sentence should read as follows “Government Auditing Standards, audit(s) of compliance requirements under the Single Audit Act,” etc. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

### **Revisions to *Standards* re: Modification in the body of the firm representation letter regarding must-select engagements**

The proposed changes include revisions to:

- Paragraph .208 Appendix B, to add paragraph 8b to the peer reviewer considerations to specifically address must-select engagements performed by the firm and reviewed by the peer reviewer.
- Paragraph .208 Appendix B, to modify the illustrations of firm representation letters to specifically address must-select engagements performed by the firm and reviewed by the peer reviewer.

### **Revisions to Interpretations**

None

### **Comment Period**

The comment period for this exposure draft ends on September 30, 2016.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after September 30, 2016, for a period of one year.

### **Guide for Respondents**

The Board welcomes feedback from all interested parties on this proposal. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to David S. Andrews, Technical Manager – Peer Review, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 30, 2016. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by September 30, 2016.

## **Effective Date**

Final revisions to the *Standards* will be effective, if approved by the Board, for reviews commencing on or after January 1, 2017.

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# Proposed Revisions

To aid understanding, *Standards* are presented in this section if they contain a proposed revision.

## Peer Review Standards

**Note:** For reasons of simplicity and brevity, the Illustration of Reports in a System Review below only shows the Required Selections and Considerations paragraph containing proposed revisions which is identical in each of the referenced Appendices.

- **Appendix C (Standards Paragraph .209) Illustration of a Report With a Peer Review Rating of *Pass* in a System Review**
- **Appendix D (Standards Paragraph .210) Illustration of a Report With a Peer Review Rating of *Pass (With a Scope Limitation)* in a System Review**
- **Appendix E (Standards Paragraph .211) Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review**
- **Appendix G (Standards Paragraph .213) Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review**
- **Appendix I (Standards Paragraph .215) Illustration of a Report With a Peer Review Rating of *Fail* in a System Review**
- **Appendix K (Standards Paragraph .217) Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review**

## Illustrations of Reports in a System Review

### Required Selections and Considerations

Engagements selected for review included (engagements performed under *Government Auditing Standards*, [including compliance requirements under the Single Audit Act](#), audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and SOC 2 engagements]).

**Appendices C, D, E, G, I, and K related footnotes to the Required Selections and Considerations paragraphs**

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations or service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations 63-1, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under Government Auditing Standards (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate the compliance audit requirements under the Single Audit Act, this portion of the sentence should read as follows “Government Auditing Standards, audit(s) of compliance requirements under the Single Audit Act,” etc. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

**Note: For contextual purposes the considerations sections of paragraph .208 of Appendix B are shown in their entirety. In addition, only Illustrations of Firm Representations for system reviews are included. Changes are not being proposed to Firm Representations for Engagement Reviews.**

## **Appendix B**

### **Considerations and Illustrations of Firm Representations**

**.208**

1. The team captain or review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review.
2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management’s refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the peer review program, and the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations). If termination occurs, it may result in an investigation of a possible violation by an appropriate regulatory, monitoring, and enforcement body.
3. On System Reviews, the written representations should be addressed to the team captain (for example, “To John Smith, CPA”). Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report.
4. On Engagement Reviews, the representations should be addressed to the review captain (for example, “To John Smith, CPA” or on committee-appointed review team reviews where

appropriate, it may be addressed “To the Review Captain”) and dated the same date as the peer review report.

5. The written representations should be signed by individual members of management whom the team captain, review captain or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner in charge of the firm’s system of quality control (this should not be a firm signature).
6. If a representation made by management is contradicted by other information obtained, the team captain or review captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.
7. The firm is required to make specific representations, as noted in the text that follows. The firm is not prohibited from making additional representations and may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain or review captain (see interpretations). The team captain or review captain may request additional representations based on the circumstances and nature of the peer review.
8. As of the date of the representation letter and for the peer review year, the firm should do the following:
  - a. Compliance with Rules and Regulations
    - Acknowledge responsibility for complying with the rules and regulations of state boards of accountancy and other regulations
    - Confirm, to the best of its knowledge and belief, that there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
      - If there are known situations of noncompliance, the confirmation should first summarize the situation(s) where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance (see interpretations). The confirmation should be written such that other than the summarized situation(s), to the best of its knowledge and belief, there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
  - b. Completeness of the Engagement Listing
    - State the list of engagements provided to the reviewer:

- Included all engagements with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued
  - Included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable
  - For System Reviews, where applicable, state that the firm performed the following must-select engagements for the period covered by the peer review and at least one of each type of must-select engagement that was performed was selected and reviewed by the peer reviewer: engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements.
  - For Engagement Reviews, state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB permanent inspection
  - Acknowledge that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body
- c. Firm Remediation of Nonconforming Engagements, if applicable
- Confirm it will remediate nonconforming engagements as stated by the firm on the Matter For Further Consideration Form, Finding for Further Consideration Form, or Letter of Response, as applicable.
- d. Communications From Regulatory, Monitoring, or Enforcement Bodies
- State that the firm has discussed significant issues from reports and communications (see interpretations) from regulatory, monitoring and enforcement bodies (see interpretations), with the team captain or review captain, if applicable.
  - State that the firm has provided the team captain or review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
  - Confirm, to the best of its knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by

regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end OR

- Include a summary of the restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

e. Quality Control Materials

- State that it understands the intended uses and limitations of the quality control materials it has developed or adopted.
- For System Reviews, state that it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- For Engagement Reviews, state it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting practice.

f. Other Representations

- Include other representations requested by the team captain or review captain based on the circumstances and nature of the peer review.

## **Illustration of a Representation Letter That Has No Significant Matters to Report to the Team Captain for a System Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.)

October 31, 20XX

To the [Name of Team Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of this the date of this letter. This list appropriately identified and

included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control [SOC] 1 and SOC 2 engagements), as applicable. We understand that failure to properly include ~~these~~ engagements on the list subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; customized where applicable] We have completed and issued the following must-select engagements and the peer review team has reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Audits of compliance requirements under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of carrying broker-dealers
6. Examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

[Signature]

**Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Team Captain for a System Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.)

October 31, 20XX

To [Name of Team Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations (Service Organizations Control [SOC] 1 and SOC 2 engagements), as applicable. We understand that failure to properly include ~~these~~ engagements ordinarily subject to the scope of the peer review ~~on the list~~ could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; where applicable] We have completed and issued the following must-select engagements and the peer review team has reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Audits of compliance requirements under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of carrying broker-dealers
6. Examinations of service organizations *Service Organizations Control (SOC) 1 and SOC 2 engagements*

We confirm that we will implement the remedial plans for nonconforming engagements stated in our response to Finding for Further Consideration Forms 1 and 3.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. Other than the single partner restriction to perform employee benefit plans as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,