

System Review Report

December 16, 2015

To the Owner of
Pettit & Company, LLC
and the Peer Review Committee of the Indiana CPA Society

We have reviewed the system of quality control for the accounting and auditing practice of Pettit & Company, LLC (the firm) in effect for the year ended September 30, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

We noted the following deficiencies during our review:

1. **Deficiency** – The firm's procedure for accepting new audit clients included communication with the prior auditor, however it did not contain specific audit procedures to obtain evidence regarding some of the opening balances. Additionally, the firm's practice aids and audit programs related to initial audits were not being completed as required by the firm's quality control policies and procedures. Professional standards require that the subsequent auditor either review the predecessor auditor's documentation regarding opening balances or that specific audit procedures be performed to obtain such evidence from the audit client. The firm's staff did not have a complete understanding of the audit procedures and requirements related to new audit clients and plans to correct this situation when the next new audit engagement is accepted.

Recommendation - The firm should review the professional standards related to initial audits and opening balance audit procedures. The firm's quality control materials related to initial audits and opening balances should be appropriately designed and utilized to meet professional standards and comply with the firm's quality control policy and procedures.

2. **Deficiency** – The firm's documentation of risk assessment results and testing during the planning stage of audits was lacking in detail. Control risk was often assessed at "low" and there was some control testing completed. However, the results of the control testing and the level of reliance on controls was not documented. Audit programs and procedures were sometimes not tailored to specifically follow the risk assessment results. The firm also did not have documentation of the auditor's expectation of recorded amounts or ratios developed or an evaluation as to the differences and investigation of said differences as required by auditing standards. The firm's staff did not have a complete understanding of the analytic planning procedures and risk assessment process required by standards including the need to tailor the audit programs. The firm plans to obtain training and correct the deficiency going forward.

Recommendation – The firm should obtain training in the subject area of audit risk assessment and audit planning. Staff should be trained on the proper use and completion of the risk assessment quality control materials and the proper manner of documentation.

In our opinion, except for the deficiencies described above, the system of quality control for the accounting and auditing practice of Pettit & Company, LLC in effect for the year ended September 30, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Pettit & Company, LLC has received a peer review rating of *pass with deficiency*.

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