

Report on the Firm's System of Quality Control

November 10, 2017

The Partners
Smith Marion & Co., LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Smith Marion & Co., LLP in effect for the year ended March 31, 2017. 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.

A summary of nature, objectives, scope, limitations of, and the procedures in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards* including compliance audits under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

Deficiency #1— The firm's quality control policies and procedures require that the financial statements of all attest engagements be reported on, in accordance with professional standards. However, the firm does not have specific procedures for identifying such reporting issues for its attest engagements. As a result, during our review of three review engagements, we noted that the firm did not include report paragraph headings as required by standards, and was missing certain required language in the second paragraph regarding management's responsibility for the financial statements.

Deficiency #2— The firm's quality control policies and procedures require proper utilization of its third-party practice aids and consultation when dealing with audit performance and documentation issues exclusive to a specialized industry. However, the firm does not have specific procedures for identifying such audit performance and documentation issues in specialized industries. As a result, during our review two audits of non-profit organizations under Uniform Guidance, we noted instances where the firm did not document and/or test certain required controls, did not assess control risk appropriately with respect to federal programs, did not provide explanations for all applicable compliance requirements that the firm did not consider to be material and direct, and where a required industry specific disclosure was omitted.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of Smith Marion & Co., LLP in effect for the year ended March 31, 2017, has been suitably designed or 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 deficiencies*, or *fail*. Smith Marion & Co., LLP has received a peer review rating of *pass with deficiencies*.



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