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Audits play a vital role in society, providing valuable information to business owners, investors and the public. As today’s business environment continues to evolve and become more complex, upholding audit quality becomes more crucial than ever.

The American Institute of CPAs® (AICPA®) promotes this goal through its Enhancing Audit Quality initiative (EAQ). The initiative, which started in 2014, aligns all AICPA assurance-related activities to support auditors in their quality improvement.

Our approach

EAQ takes a data-driven approach to audit quality:

- First, we gather data from the AICPA Peer Review Program and other sources.
- Then, we analyze that data, actions of standard setters and other prevailing environmental trends to identify areas where quality challenges may arise.
- Each year, we use that analysis to determine areas of focus for EAQ.
- We then help auditors improve in those areas by revising standards and guides to improve clarity, developing free education and resources and emphasizing the areas of focus in Peer Review.
At a glance: Top 2019 accomplishments

EAQ has seen numerous successes since it started in 2014. Auditors are showing their commitment to quality improvement by downloading our free toolkits, which have been accessed more than 147,000 times since EAQ’s launch. We’ve also seen substantial improvements in our Peer Review Program: Peer reviewers are more effective at detecting quality challenges, and when issues are detected, firms are taking the requisite actions to improve.

EAQ made great strides toward improved audit quality in 2019. Here are a few of those accomplishments:

Peer Review
Peer reviewers improved significantly — reviewers are now identifying 70% of audit quality issues, up from 22% in 2014.

Risk assessment
Our risk assessment toolkit was accessed more than 21,000 times in 2019. We developed industry-specific risk assessment practice aids, microlearning sessions and more to help auditors avoid common issues.

Internal control
We conducted new research into common internal control misconceptions and launched an educational campaign and a toolkit.

Auditing revenue recognition
We educated auditors on how to maintain their independence when auditing clients under the new revenue recognition standard, ASC 606.

SOC engagements
We conducted new research on common missteps in SOC 1® and SOC 2® engagements and shared them with auditors.
Progress in Peer Review

Our best tool for enhancing audit quality is the AICPA Peer Review Program. The vast majority of firms that perform audits of private entities\(^1\) in the United States are required to undergo a peer review through this program. As such, peer reviewers play a key role in helping firms identify quality issues and helping them remediate as needed.

Peer reviewers improving detection of quality issues
Peer reviewers can only help firms improve if the reviewers are catching firms’ quality issues to begin with.

Through the AICPA Enhanced Oversight Program, subject-matter experts review peer reviewers’ work to evaluate peer reviewer performance and gather data on audit quality issues. When EAQ started in 2014, the Enhanced Oversight Program found that peer reviewers were only identifying 22% of all non-conforming engagements.\(^2\) To help reviewers improve, we instituted new training requirements, oversight programs and educational efforts.

And those efforts are working. In our most recently completed sample of Enhanced Oversights, peer reviewers were catching 70% of all non-conforming engagements.

Peer Review helping firms improve
When peer reviewers detect quality issues and firms are required to take remedial action, firms are improving.

Seventy-nine percent of firms that were required to undergo remedial action improved their report rating on their next peer review.

In 2019, we looked back at firms that went through our first round of Enhanced Oversights in 2014. We found that 90% of firms that performed a non-conforming engagement had taken action to avoid repeat issues. 53% of firms made the business decision to stop performing engagements in the area where non-conformity was detected, with many of these firms indicating the resources required to perform those audits in accordance with the standards were not justified by the revenue received. Thirty-seven percent continued to perform those engagements but had no repeat issues in their subsequent peer review.

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\(^1\) For the purposes of this report, “private entities” refers to all non-SEC registrants, including but not limited to not-for-profit organizations, employee benefit plans and governmental entities.

\(^2\) A non-conforming engagement is one that was not performed and/or reported on in conformity with applicable professional standards in all material respects.
2019 Enhancing Audit Quality areas of focus

Through EAQ’s data-driven approach, we identify focus areas for each calendar year based on where quality challenges are most likely to arise. In 2019, those areas of focus were:

- Risk assessment (continued from 2018)
- Internal control
- Auditing revenue recognition
- Documentation (continued from 2017 and 2018)
- SOC engagements
Risk assessment

Why risk assessment?

Identifying and responding to risks of material misstatement are crucial steps in every audit. However, a 2018 survey of peer reviewers found that more than 50% of audits they reviewed failed to comply with AU-C Section 315: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, or AU-C Section 330: Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained.

In 2019, a study supported by the Assurance Research Advisory Group (ARAG)3 showed that many auditors are not identifying new risks throughout the audit, not adding elements of unpredictability (unless they are fraud risks) or not changing their responses to audit risks from year to year.

What we did in 2019

Resources: Continuing our efforts from 2018, we enhanced our free risk assessment toolkit to support compliance with professional standards. We developed industry-specific risk assessment practice aids, webcasts, microlearning sessions and other resources to guide auditors in avoiding common risk assessment issues.

Awareness: We launched a campaign to drive awareness of common risk assessment misconceptions and share related resources. The efforts included a blog post, a quiz on the risk assessment standard, podcasts and more communications.

We also shared ads on social media that directed auditors to our free toolkit. The ads demonstrated the importance of linking your audit procedures to your risk assessment.

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3 The Assurance Research Advisory Group (ARAG) is a group of practitioners and academics formed in collaboration with the American Accounting Association (AAA). The group provides funding and access to personnel to support research projects that address private company assurance topics that are of interest to practitioners.
We held sessions on risk assessment at a variety of AICPA and state CPA society conferences to raise awareness about common misconceptions. In partnership with RSM, Thomson Reuters (makers of PPC) and Wolters Kluwer (makers of CCH), we also held a special session on how to avoid common risk assessment missteps when using their audit methodologies.

To help peer reviewers better detect non-compliance with the risk assessment standards, we trained them on common risk assessment issues.

**Standards:** We worked with international standard-setters on revisions to ISA 315. The revisions aim to drive consistent and effective identification and assessment of risks of material misstatement; modernize ISA 315 to meet evolving business needs; improve the standard’s applicability to entities across a wide spectrum of circumstances and complexities; and focus auditors on exercising professional skepticism throughout the risk identification and assessment process.

We also developed substantial revisions to AU-C 315 to converge our standards with the new ISA 315. In 2020, we plan to expose these revisions for comment.

**Figure 1: Risk assessment by the numbers***

- 21,000+ visits to the risk assessment toolkit
- 1,700+ registrants to AICPA risk assessment webcasts
- 77,000+ views of the risk assessment ad campaign
- 4,000+ people took the *Journal of Accountancy* quiz on risk assessment

*Stats from Jan. 1, 2019, through Dec. 31, 2019

**“Risk Assessment Deep Dive: How to Avoid Common Missteps” and “Methodology Providers Address Common Missteps.”**
Internal control

Why internal control?

A 2018 Peer Review Program survey found that 47% of the audits reviewed did not comply with AU-C Section 315 and/or AU-C Section 330 because auditors did not properly address their clients’ controls.

Gaining an understanding of their clients’ controls assists auditors in assessing the risks of material misstatement, which helps auditors design and perform audit procedures that are tailored to their clients’ risks. Without properly understanding controls, auditors may not identify risks associated with the client’s internal controls and therefore may not design and perform the appropriate procedures.

Our research (conducted 2018–19) found that auditors’ most common missteps related to internal control are:

• Assuming some clients have no controls
• Not understanding which controls are relevant to the audit
• Failing to evaluate the design and implementation of relevant controls
• Inappropriately assessing control risk
• Failing to link further procedures to control-related risks

What we did in 2019

Resources: We developed a free internal control toolkit and shared it with auditors through a variety of channels. The toolkit includes resources such as an internal control over financial reporting tool, an internal inspection aid, an aid for identifying controls at smaller entities, a staff training workshop presentation and a process memo template.

We also educated auditors on common internal control misconceptions through courses and webcasts, and we retrained all AICPA course authors and instructors on these concepts.

Awareness: We educated auditors on internal control considerations through a variety of communications, including a Journal of Accountancy article and a quiz challenging auditors to test their knowledge of internal control auditing requirements.

We also trained peer reviewers on common internal control findings to help them detect quality challenges.

Figure 2: Internal control by the numbers*

<table>
<thead>
<tr>
<th>Stat</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visits to the internal control toolkit</td>
<td>10,000+</td>
</tr>
<tr>
<td>Registrants to the internal control webcast</td>
<td>1,000+</td>
</tr>
<tr>
<td>Views of the Journal of Accountancy article on common internal control missteps</td>
<td>10,000+</td>
</tr>
<tr>
<td>People took the Journal of Accountancy quiz on internal control auditing requirements</td>
<td>4,000+</td>
</tr>
</tbody>
</table>

*Stats from Jan. 1, 2019, through Dec. 31, 2019

5 “Take control of your audit by avoiding internal control missteps.”
2019 EAQ areas of focus

Auditing revenue recognition

Why auditing revenue recognition?

In the 2018 EAQ Highlights and Progress report, we noted that we would be focusing on auditing accounting estimates, including revenue recognition, in 2019. Throughout the year, we developed fair value resources and Current Expected Credit Losses (CECL) guidance to aid auditors in this important area.

But when a survey by The Private Company Council (PCC) of the Financial Accounting Standards Board (FASB) found that over half of private companies had not yet started implementing ASC 606, “Revenue from Contracts with Customers,” as of the middle of 2019, our focus shifted entirely to revenue recognition.

ASC 606 is one of the most significant accounting changes in decades. Our focus in 2019 was ensuring that auditors understood the requirements of the standard and implications for independence. As clients look to their auditors for guidance on implementing ASC 606, it’s critical that auditors do not cross the line and impair their independence.

What we did in 2019

Resources: We shared our revenue recognition toolkit with CPAs through a variety of channels. The toolkit includes resources for clients implementing the new standard, resources for firms looking to educate their clients and prepare for their engagements, and links to the Audit and Accounting Guide and FASB resources.

The toolkit also contains resources to help CPAs maintain their independence as their clients adopt the new standard. One of these independence resources was a report by the Center for Plain English Accounting (CPEA) that lays out independence threats auditors could face and how to avoid them.

We also educated auditors on ASC 606 as well as independence considerations through a variety of webcasts.

Awareness: We raised awareness of revenue recognition independence considerations through communications such as a Journal of Accountancy article and an episode of the Ethically Speaking podcast.

Peer reviewers were also trained on ASC 606 and independence considerations at the 2019 Peer Review Conference.

Figure 3: Auditing revenue recognition by the numbers*

15,000+ visits to the revenue recognition toolkit

3,000+ views of the Journal of Accountancy article

5,000+ registrants to revenue recognition webcasts*

*Stats from Jan. 1, 2019, through Dec. 31, 2019

Documentation

Why documentation?
Enhanced Oversights data have shown that, for the last three years, approximately one in four engagements subject to review was materially non-compliant due to the auditor’s failure to comply with the audit documentation standard (AU-C Section 230: Audit Documentation).

Documentation was also an EAQ focus area in 2017 and 2018, and we continued to support auditors in their improvement in 2019. As we look to 2020 and beyond, we’ll continue to emphasize proper documentation with respect to all EAQ areas of focus.

What we did in 2019

Resources: We continued to share our free documentation toolkit with auditors to help them learn about common issues. We also created a documentation course specific to employee benefit plan audits and edited our other documentation courses to make common misconceptions more prominent.

Awareness: EAQ conference presentations and communications continued to emphasize the importance of proper documentation. Sessions on documentation were also included at AICPA ENGAGE and state CPA society conferences. A peer reviewer shared his advice for proper audit documentation in an AICPA Insights blog post, and we relaunched a previous webcast on audit documentation due to AICPA member demand.

Figure 4: Documentation by the numbers*

<table>
<thead>
<tr>
<th>Metric</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visits to the documentation toolkit</td>
<td>6,000+</td>
</tr>
<tr>
<td>Registrants to the documentation webcast</td>
<td>500+</td>
</tr>
<tr>
<td>Views of the documentation blog post</td>
<td>4,900+</td>
</tr>
</tbody>
</table>

*Stats from Jan. 1, 2019, through Dec. 31, 2019
SOC engagements

Why SOC engagements?

The System and Organization Controls (SOC) suite of services is an emerging opportunity for auditors to expand their practices. However, as auditors begin taking on these engagements, it’s crucial that they continue to perform high-quality work.

An analysis of Peer Review Matters for Further Consideration (MFCs) showed a few common missteps in SOC 1 and SOC 2 engagements:

- Failure to obtain the appropriate competence required under the attestation standards to properly perform a SOC engagement
- Failure to prepare reports in accordance with professional standards
- Failure to properly document in accordance with professional standards.

What we did in 2019

We compiled the above common missteps into a resource that was shared with peer reviewers and SOC attest providers. Content used in AICPA SOC Schools was also updated to address the common issues listed above.

In articles and other content created by the AICPA about SOC engagements, we emphasized the importance of quality work and having the appropriate competence to perform SOC engagements. For example, we published a Journal of Accountancy article on opportunities in SOC reporting that highlighted the competencies and capabilities engagement teams are required to possess to perform SOC engagements.

Figure 5: SOC engagement by the numbers*

<table>
<thead>
<tr>
<th>Stat</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visits to SOC Suite of Services page</td>
<td>83,000+</td>
</tr>
<tr>
<td>Views of Journal of Accountancy article</td>
<td>4,000+</td>
</tr>
<tr>
<td>Advanced SOC for Service Organizations certificates issued</td>
<td>176</td>
</tr>
<tr>
<td>SOC for Cybersecurity certificates issued</td>
<td>52</td>
</tr>
</tbody>
</table>

*Stats from Jan. 1, 2019, through Dec. 31, 2019

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7 In a System Review, a peer reviewer notes a matter as a result of his or her evaluation of the design of the reviewed firm's system of quality control or tests of compliance with it. Matters are typically one or more "no" answers to questions in peer review questionnaire(s) that a reviewer concludes warrant further consideration in the evaluation of a firm's system of quality control. A matter is documented on a Matter for Further Consideration (MFC) form.
The Assurance Research Advisory Group (ARAG) funds research projects addressing private company assurance topics that are of interest to practitioners. The research funded by the ARAG will provide the profession with valuable insights into the factors driving assurance quality.

Over the past year, we’ve completed studies on risk assessment, group audit and data analytics. The results of the group audit study suggested that considering qualitative and quantitative risk factors separately during the planning phase of an audit results in more effective group audits. These findings were shared with the International Auditing and Assurance Standards Board’s (IAASB) Group Audit task force.

2020 EAQ areas of focus

Auditing revenue recognition
In 2020, we’ll continue to educate auditors on common revenue recognition misconceptions with an emphasis on independence considerations.

Risk assessment
We’ll continue our efforts to support compliance with the risk assessment standards and educate auditors on common misconceptions in practice.

Internal control
In 2020, we’ll continue to educate auditors on the most common challenges they’ll encounter related to internal control.

Engagement acceptance and continuance
Research we performed in 2019 showed a correlation between audit quality and engagement partner experience. In 2020, we’ll educate auditors on the importance of only accepting and continuing engagements they are qualified and independent to perform.

SOC engagements
In 2020, we’ll continue to encourage auditors to make the necessary investments to perform quality work if they choose to take on SOC engagements.