



## **Examples of Matters in Peer Reviews Engagements with Year-Ends between 1/01/2019 and 4/01/2020<sup>1</sup>**

The AICPA is using data collected during peer reviews to learn about trouble spots and is developing resources within the AICPA that will allow firms to have a more focused remedy for their findings. Our ultimate goal is to assist firms with the hurdles they've faced in the past, provide them with tools to drive up their quality and overall "up the game on quality" in the profession.

See below for examples of matters related to the following areas:

### **Professional Standards**

- [Clarified Auditing Standards](#)
- [Accounting and Review Services](#)
- [Attestation Standards](#)
- [Code of Professional Conduct](#)
- [Statements on Quality Control](#)
- [FASB Accounting Standards Codification](#)

### **Practice Areas**

- [Governmental, Single Audit and HUD](#)
- [ERISA](#)
- [Broker-Dealers](#)
- [Service Organization Control Reports](#)
- [Banking, including FDICIA](#)
- [PCAOB](#)
- [Not for profit](#)

### **Professional Standards**

#### *Clarified Auditing Standards*

- Failure to appropriately document planning procedures, including:
  - Risk assessment (and linkage of risks to procedures performed)
  - Planning analytics
  - Understanding of IT environment
  - Internal control testing
- Failure to properly support and document the assessed level of risk in accordance with professional standards including:

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<sup>1</sup> Due to the timing of when peer reviews are performed, there is a lag between the year-end of the engagement and when a matter is included in this report. Peer reviews are due 6 months after a firm's peer review year end. A firm's peer review would cover engagements with year ends during the peer review year (report dates for projections and AUPs). As an example, if a firm's peer review year is January 1, 2019 to December 31, 2019, its peer review is not due until June 30, 2020. Therefore, a January 31, 2019 year end audit would not be included in the MFC data until approximately June 30, 2020. However, a December 31, 2019 year end audit in the same scenario would be included in the MFC data around June 30, 2020 as well. Refer to [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary) for more information about peer review.

We prepare our analysis on MFCs for engagements with year ends (report dates for projections and AUPs) from the most recently accepted peer reviews, generally within the last 15 months. By using a 15-month period, we can ensure we are providing information based on the most recent engagements, including a calendar year end.

- Setting control risk at less than high without testing the effectiveness of controls
- Performing risk assessment at the audit level rather than at the relevant assertion level
- Failure to appropriately address fraud considerations
- Failure to obtain appropriate management representation letters. Matters included failure to:
  - Update the letter to include all representations required by the applicable professional standards
  - Date the letter appropriately
  - Include appropriate financial statement periods
  - Include required representations
  - Include appropriate wording concerning consultation with an attorney.
- Failure to communicate and/or document required communications with those charged with governance
- Failure to include the appropriate reference to the predecessor auditor in an Other Matter's paragraph
- Failure to include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements
- Failure to adequately document sampling methodology
- Failure to appropriately report on supplemental information such as:
  - Not identifying all supplemental information presented
  - Use of outdated language
- Failure to adhere to established quality control policies and procedures including:
  - Incorrect or insufficient use of third-party practice aids
  - Usage of outdated quality control materials
  - Insufficient review of audit documentation

### *Accounting and Review Services Compilations*

- Failure to prepare reports in accordance with professional standards. The following matters were noted:
  - Not updated for recent SSARS pronouncements
  - No headings on the report
  - Inappropriate titles or lack of a title
  - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information
  - Failure to mention that substantially all disclosures are omitted
  - Failure to report on all periods presented in the financial statements
  - Failure to include a separate paragraph indicating that the financial statements were prepared in accordance with a special purpose framework and that framework differs from generally accepted accounting principles
- Failure to obtain an engagement letter or failure to contain all elements (e.g. objectives of the engagements) required by SSARSs. Other miscellaneous matters were noted relative to the engagement letter including:
  - Failure to note the lack of independence or the letter referred to GAAP on an engagement performed in accordance with a special purpose framework
  - Failure to identify non-attest services provided
  - Failure to obtain required signatures
- Failure to appropriately label select disclosures as "Selected Information – Substantially All Disclosures Required by [Applicable Financial Reporting Framework] Are Not Included"

## Reviews

- Failure to obtain appropriate management representation letters. Matters included failure to:
  - Include all representations required by the applicable professional standards
  - Date the letter appropriately
  - Include appropriate financial statement periods
- Failure to update reports in conformity with the applicable professional standards including:
  - Inappropriate titles or lack of a title
  - No headings on the report
  - Failure to include an explanation of the degree of responsibility being taken with respect to supplementary information in a separate paragraph
- Failure to obtain an engagement letter or failure to have all the required elements within the engagement letter
- Failure to document expectations or the comparison of expectations to recorded amounts for analytical procedures
- Failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report

## Attestation Standards

(Note: Most MFCs in this area are related to AUPs or SOCs. SOC related MFCs are included in the practice area section below.)

- Failure to include the following in an AUP report:
  - The word "Independent" in the title
  - A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
  - Failure to include all elements required by attestation standards in the engagement letter
- Failure to obtain a management representation letter
- Failure to provide appropriate documentation concerning agreed upon procedures

## Code of Professional Conduct

- Failure to establish and document in writing the understanding with the client with regard to non-attest services provided
- Failure to address management's responsibilities to oversee and evaluate the results of the services performed

## Statements on Quality Control

- Leadership Responsibilities for Quality within the Firm
  - Failure to update the quality control document regarding EQCR and monitoring
  - Failure to devote sufficient resources for the support of its quality control policies and procedures
  - Failure to ensure that firm personnel complete the appropriate amount of CPE in areas of practice and in accordance with the requirements of professional standards
- Engagement Performance
  - Failure to properly complete or utilize purchased practice aids to assist in performing and documenting engagements

- Failure to perform EQCR on engagements that meet the firm's criteria

#### *FASB Accounting Standards Codification*

- Failure to disclose the date through which subsequent events were evaluated
- Failure to correctly classify long term debt, cash flows, present gross amounts instead of net and identify non-cash transactions on the cash flow statements
- Failure to include required disclosures including:
  - Policies related to goodwill
  - Policies related to multi-employer defined contribution pension plans
  - Operating lease obligations
  - Classification basis and cost determination for inventory
  - Shares authorized, issued and outstanding for capital stock
  - Reasoning for absence of income taxes or disclosures relating to income taxes which include temporary differences and carry forwards that cause significant portions of a deferred tax liability or asset, significant components of income tax expense and uncertain tax positions
  - Fair value hierarchy of investments, description of the levels, description of the assumption methods used and tabular presentation of amounts
- Failure to perform sufficient procedures or sufficiently document the procedures to obtain assurance of the fair value measurements
- Failure to update inventory disclosures to reflect lower of cost or net realizable value according to newly issued professional standards Failure to include required qualitative disclosures in financial statements pursuant to the amendments of ASU 2016-14
- Failure to appropriately implement ASC 606, including failure to consider implications and failure to include all required disclosures

#### **Practice Areas**

Issues noted above related to professional standards and FASB Accounting Standards Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

#### *Governmental, Single Audit and HUD Reporting*

- Failure to include all of the required elements of professional standards in the Independent Auditor's Report including the following omissions: titles, reference to the engagement being performed in accordance with Government Auditing Standards, identification of the governmental entity's major funds and opinion units presented, and addressing supplemental information and required supplemental information, reference to prior year financial statements when comparative years are presented
- Failure to include all of the required elements of professional standards in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters including: omitted "Independent" from report title, omitted or incorrect reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, indication that there were no significant deficiencies identified
- Inadequate documentation related to the agreed upon procedures engagement that accompanies a public housing authority or multifamily single audit
- Failure to report findings in the appropriate form in the Schedule of Findings and Questioned Costs

#### **Disclosure and Presentation**

- Failure to present the financial statements in accordance with professional standards including Fund Balance and Net Position presentation and reconciliations, presentation of funds, missing significant policy footnotes, missing disclosures related to fair value, debt, investments, accounts receivable, improper financial statement titles
- Failure to include the REAC financial data templates as supplemental information as required by HUD

### Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor, evaluation of significant threats, and safeguards applied to reduce threats to an acceptable level
- Failure to meet the Yellow Book CPE requirements including 80 hours of A&A and 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the auditee operates
- Failure to document required communications with those charged with governance, including proper communication of internal control findings
- Failure to ensure that the written representations from the audited entity contained all applicable elements including the following: representations tailored to the entity and governmental audit regarding federal awards, and representations covering both years when comparative financial statements are presented. Also, improper consideration of the date of the representations in relation to the audit report.
- Inadequate documentation related to evaluation of actuary qualifications
- Inadequate documentation of census data testing
- SINGLE AUDIT: Failure to identify and test sufficient and appropriate major programs, failure to cluster, failure to properly perform Type A and Type B program risk assessments, failure to group programs with the same CFDA number and incorrect determination of the auditee as low-risk resulting in insufficient coverage
- SINGLE AUDIT: Failure to properly conclude and document either that an applicable compliance requirement does not apply to the particular auditee or that noncompliance with the requirements could not have a direct and material effect on a major program
- SINGLE AUDIT: Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each applicable compliance requirement and major program
- SINGLE AUDIT: Failure to document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk
- SINGLE AUDIT: Failure to document the testing of controls and compliance for the relevant assertions related to each applicable compliance requirement with a direct and material effect for the major program, including insufficient documentation and usage of dual-purpose testing
- SINGLE AUDIT: Lack of documentation of risk of material noncompliance for the major program's compliance requirements occurring due to fraud
- SINGLE AUDIT: Lack of documentation related to the SEFA:
  - Internal controls over the preparation of the SEFA
  - Procedures to determine whether the SEFA is fairly presented in all material respects
  - Reconciliation of the SEFA to amounts in the financial statements
- SINGLE AUDIT: Lack of documentation of consideration of subsequent events related to the major program and its compliance requirements

## ERISA

- Incomplete or unclear audit documentation in the following areas:
  - Risk assessment
  - Tests of controls
  - Sampling
  - Reliance on and evaluation of SOC1 report
- Failure to report significant plan information, such as related party (party in interest) transactions and prohibited transactions between a plan and a party in interest
- Failure to obtain an understanding of the actuary's objectives, scope of work, methods and assumptions and consistency of application on defined benefit plans
- Failure to properly reflect changes in standards covering investments and their fair market value reporting

## Broker-Dealers

- Failure to comply with SEC Independence Rules
- Failure to make or document the required communications with the audit committee (or board)
- Failure to refer to audit and procedures performed as being in accordance with PCAOB standards.
- Failure to utilize practice aids that address PCAOB standards

## Service Organization Control (SOC) Reports

Failure to include required elements in the report such as:

- Complementary user entity controls
- Carve outs
- Criteria for the principles being opined on

Inclusion of all controls in control activity section

- Failure to have sufficient working paper support for information included in the report, such as lack of or poor documentation of:
  - Procedures to assess the nature, timing and extent of the procedures (specifically sampling methodology)
  - Procedures to test carve outs

Procedures to assess the suitability criteria to evaluate whether management's description of the service organization's system is fairly presented

## Banking, including FDICIA

- Failure to include all elements required by professional standards in the accountant's report on internal controls
- Failure to understand and comply with the independence rules applicable to these engagements, i.e. SEC independence rules do not allow the auditor to also prepare the client's financial statements
- Failure to properly disclose:
  - Loan servicing fees including the amount of contractual fees and assumptions used to estimate the fair value of the fees
  - The allowance for loan losses and impaired loans

## PCAOB

- Failure to include appropriate documentation related to:

- Independence
- Sampling methodology
- Risk assessment (and linkage of risks to procedures performed)

*Not for profit*

- Failure to obtain the necessary knowledge of current standards and obtain the proper training for NFP engagements
- Failure to appropriately document assessment of the SKE of staff designated to oversee non-attest services
- Failure to document consideration of the impact on independence surrounding the performance of non-attest services, including documentation of the impact of performing multiple non-attest services
- Failure to include all representations required by the applicable professional standards in the management representation letter including modifications to indicate the client had not utilized legal counsel regarding litigation, claims or assessment
- Failure to document walk through procedures performed
- Failure to document application of safeguards to eliminate threats or reduce them to an acceptable level
- Failure to include all required elements within the engagement letter
- Failure to clearly, sufficiently and adequately document the assessed level of risk in accordance with professional standards including:
  - Setting control risk at less than high without testing the effectiveness of controls
  - Documenting risk assessment at the account level rather than the relevant assertion level