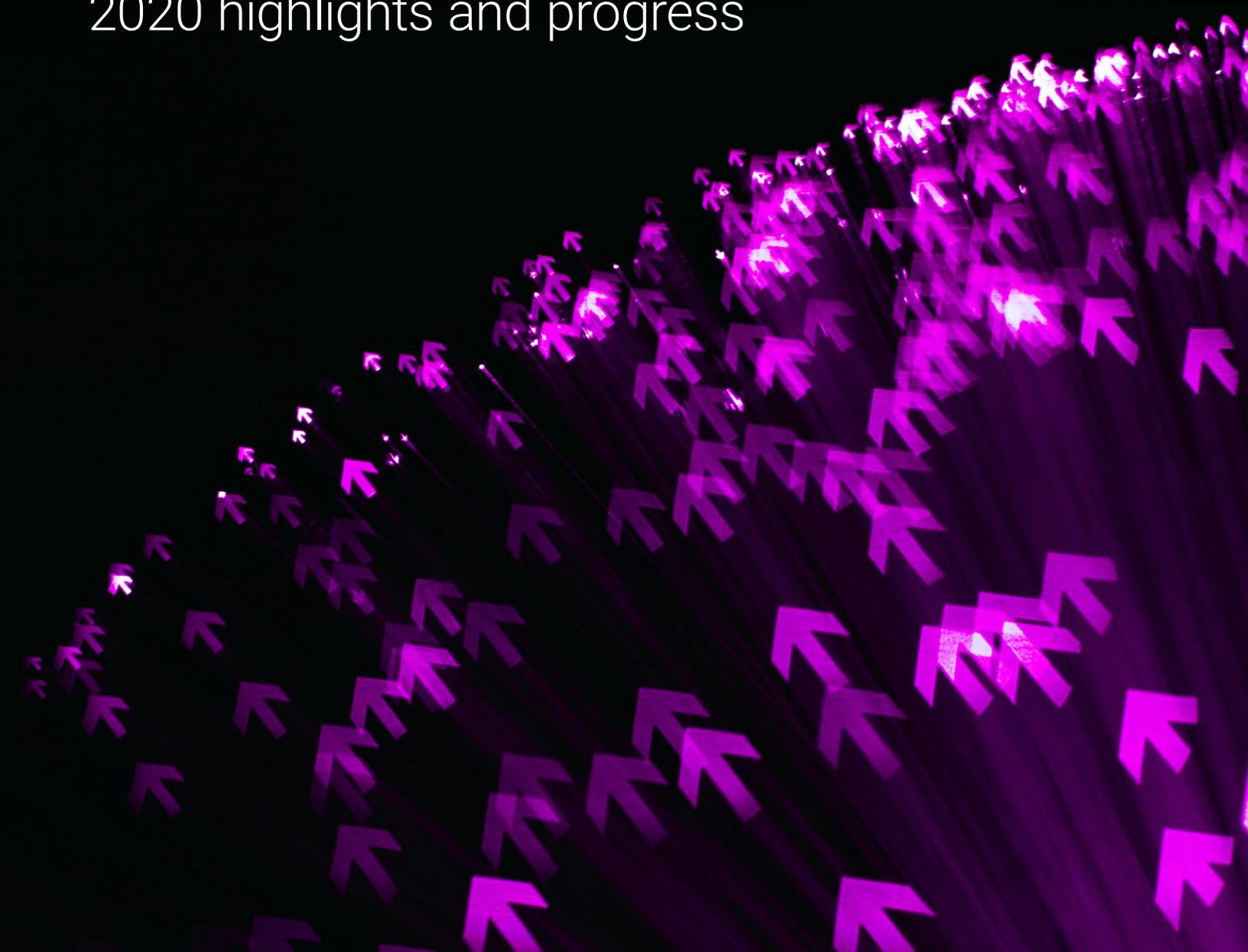




# Enhancing Audit Quality

2020 highlights and progress



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# Introduction

With the challenges of a global pandemic and the resulting economic disruption, trust in auditors and the profession has become more important than ever. Investors and businesses navigating financial uncertainty leverage audited information for decision-making in a time where there are more questions than answers. Audits can also inform the public about how organizations are managing tax dollars, including funding from government relief programs created to help companies survive the COVID-19 pandemic.

The pandemic may have disrupted how audits are performed, shifting most in-person work to remote work and presenting auditors with new financial reporting-related challenges, but it didn't diminish audits' importance. Auditors must perform high-quality assurance services to continue to fulfill their responsibilities to organizations and the public.

Through the [Enhancing Audit Quality initiative \(EAQ\)](#), the American Institute of CPAs (AICPA®) is promoting audit quality in the areas where it's most needed. The initiative, which began in 2014, aligns all assurance-related activities across the AICPA to support auditors in their quality improvement.

To learn more about the progress the initiative has made since it began in 2014, review [our previous Highlights and Progress reports](#).

## 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, the actions of standard setters and other prevailing environmental trends to identify areas where quality challenges may arise.
- Each year, we use that analysis to identify areas of focus for EAQ.
- We then help auditors address and/or improve in these new (and previously) identified challenge areas by revising standards and guides to improve clarity, developing free education and resources and emphasizing the focus areas during the Peer Review process.



In 2019, we followed EAQ's data-driven approach to identify the areas of focus for 2020:

- Auditing revenue recognition
- Risk assessment
- Internal control
- Engagement acceptance and continuance
- SOC engagements

## Guiding the profession through the COVID-19 pandemic

However, in early 2020, the COVID-19 pandemic changed everything.

As businesses across the globe closed in-person operations to combat the spread of the novel coronavirus, auditors were suddenly faced with unprecedented challenges. No longer able to perform in-person audit procedures such as inventory observations, auditors needed to quickly figure out how to fulfill their responsibilities remotely. Auditors also needed to understand how to audit companies that had been impacted by the pandemic. Heightened risks relative to internal control, fraud and new federal relief programs were just some of the considerations auditors needed to navigate.

At the AICPA, we knew we had to step up significantly in the face of these major changes to help the profession deliver the highest-quality work. It became clear that we had to rapidly shift our areas of focus and develop new plans to best serve the profession and the public interest.

As such, we quickly changed our 2020 areas of focus to:

- COVID-19 audit implications (new for 2020)
- Auditing revenue recognition (continued from 2019)
- Risk assessment and response (continued from 2018 and 2019)
- SOC engagements (continued from 2019)

Since internal control and engagement acceptance and continuance remained important, we incorporated those topics into our efforts around COVID-19 audit implications.

## At a glance: Top 2020 accomplishments

Amidst a year that presented numerous new challenges and disruptions, EAQ continued to provide valuable resources, education and support to guide auditors through the path forward. Below are a few of EAQ's 2020 accomplishments:

### COVID-19 audit implications:

To help relieve the burden the pandemic placed on firms, we extended Peer Review and auditing standards implementation deadlines and advocated for state and federal governmental agency filing deadline extensions. We educated auditors on COVID-19 challenges via blogs, articles and quizzes that were collectively accessed more than 490,000 times. We also developed webcasts and a new toolkit at [aicpa.org/COVIDaudit](https://aicpa.org/COVIDaudit), which was visited more than 32,000 times in 2020.

### Auditing revenue recognition:

We launched [new resources](#) educating auditors on the biggest risk areas associated with auditing clients who had implemented FASB's new revenue recognition standard, ASC 606, *Revenue From Contracts With Customers*. Our revenue recognition toolkit was accessed more than 26,000 times in 2020.

### Risk assessment and response:

We built upon the foundation we set starting in 2018 by continuing to educate auditors on proper risk assessment and common missteps, leading to more than 19,000 views of our [risk assessment toolkit](#) in 2020.

### SOC engagements:

We launched the new [SOC for Supply Chain](#) reporting framework as well as an associated guide and new training. Our SOC Suite of Services webpage was accessed more than 64,000 times.

**More details and accomplishments for each area of focus are laid out in the rest of this report.**



# 2020 Enhancing Audit Quality areas of focus

## COVID-19 audit implications

### Why COVID-19 audit implications?

The COVID-19 pandemic upended our lives, how we work and the global economy. Auditing was no exception to this disruption. As businesses closed in-person operations, auditors needed to figure out how to perform audit procedures remotely. Auditors also needed help considering the going concern implications for clients who faced uncertain financial futures. With heightened risks relative to internal control, fraud risk and new federal relief programs, the pandemic had a significant impact on audits that will likely continue for years to come.

### What we did in 2020

The AICPA quickly shifted its original EAQ plans for 2020 to develop a new COVID-19 audit implications area of focus to support the profession through the pandemic.

#### ***Standards and advocacy:***

Recognizing the disruption and strain the pandemic had placed on firms, [the AICPA acted quickly to seek relief from standard setters and regulators](#). The AICPA Auditing Standards Board (ASB) deferred the effective dates of SASs 134-140 for one year. The AICPA Professional Ethics Executive Committee (PEEC) also extended effective dates of various interpretations to the AICPA Code of Professional Conduct by one year.

The AICPA, through the [Governmental Audit Quality Center \(GAQC\)](#), worked closely with members to understand their challenges in performing single audits due to delayed federal guidance and made those challenges and concerns known to the Office of Management and Budget (OMB) and key grant-making agencies. After those discussions, the OMB provided single audit extensions. The current three-month extension is relevant to single audits for year-ends through Sept. 30, 2021. The GAQC also sought other extensions provided by key federal agencies and communicated them to members via [a document that has been updated on a real-time basis](#) throughout the pandemic.

The GAQC was actively involved in supporting OMB and other federal agencies on single audit matters relevant to The Coronavirus Aid, Relief, and Economic Security (CARES) Act from the passage of the Act until today. This involved suggesting solutions to the OMB; meeting regularly with federal agencies to discuss challenging areas of new federal programs from an auditing perspective; reviewing drafts of auditing guidance developed by the agencies for new federal programs and suggesting improvements; and communicating important information to members in all phases and steps.

The AICPA's [Employee Benefit Plan Audit Quality Center \(EBPAQC\)](#) raised with the U.S. Department of Labor (DOL) the filing relief that would be helpful for auditors of employee benefit plan audits. When the Internal Revenue Service (IRS) issued filing relief for Form 5500 filings due before July 15, 2020, the EBPAQC communicated this rapidly to the profession.

The Private Companies Practice Section (PCPS) Technical Issues Committee (TIC) successfully advocated for a one-year extension for any private company that had not yet adopted Financial Accounting Standards Board (FASB) ASC 606. TIC's efforts also resulted in more outreach and interpretive guidance on accounting issues related to COVID-19. TIC asked FASB to consider an expedient related to goodwill impairment for private companies; as of the writing of this report, FASB was planning to issue a final standard in Spring 2021. TIC also worked with FASB on practical expedients and trouble areas with adopting ASC 842, *Leases*.

#### ***Peer Review:***

The AICPA Peer Review Program took prompt action to provide relief to firms and protect the health and well-being of the peer reviewer community. The Program granted automatic extensions to firms with peer review due dates between Jan. 1, 2020, and Sept. 30, 2020, and allowed for other extensions when needed. Approximately 80% of the more than 4,100 firms granted an automatic extension have taken

advantage of the additional time to complete their peer reviews. The program also waived the approval requirement to perform reviews remotely and provided guidance and training to peer reviewers on how to perform such reviews effectively.

To further alleviate the effect on firms, the program collaborated with the U.S. Government Accountability Office (GAO) and the National Association of State Boards of Accountancy (NASBA) to confirm their understanding, acceptance and impact of the automatic extensions. In addition, the program communicated directly with state boards of accountancy through presentations at NASBA meetings and the AICPA's monthly State Regulatory Update newsletter.

### **Awareness:**

When the World Health Organization declared COVID-19 a global pandemic in March 2020, auditors needed help to anticipate how their audits might be affected. The AICPA met that need, launching articles on the most pressing matters before the end of March and continuing to provide guidance on audit challenges throughout the year.

The campaign included [Journal of Accountancy articles](#), [educational quizzes](#) and a series of [industry-specific blog posts](#). In total, the articles, quizzes and blogs we produced to help auditors during the pandemic were viewed over 490,000 times. We also issued podcasts, FAQs from the AICPA Peer Review Program and more communications to improve understanding and provide access to key information.

In September, we reached out to auditors on social media and asked them what questions they had about auditing entities impacted by the pandemic. We answered their questions on remote auditing, triggering events, going concern and more in [a blog post](#) and a series of videos. The videos were viewed more than 96,000 times.

### **Resources and learning:**

In addition to the need for timely news and guidance, auditors needed more in-depth learning relative to the pandemic's impacts on audit engagements. The AICPA's first webcast on the topic was launched in April 2020. We created new learning offerings throughout the year to address the most pressing topics for auditors. These were presented at conferences across the country and offered in webcast format.

To support members performing governmental audits, the GAQC developed resources such as GAQC Alerts, web events, a summary of deadline extensions, observations on the 2020 OMB Compliance Supplement and Related Addendum and more. In light of the crisis, the GAQC opened many of its related resources to the public (as opposed to just GAQC members). All of these resources can be found on [the GAQC COVID-19 Resources page](#).

Since the pandemic had a significant impact on health care entities, the AICPA also held a series of webcasts to help CPAs who work with health care clients or in the health care industry get the latest information and guidance from leading experts.

In total, the AICPA's webcasts on auditing during COVID-19 had more than 7,500 attendees.

Along with learning, the AICPA developed a new toolkit at [aicpa.org/COVIDaudit](#) with resources on topics such as auditing remotely, fraud risk, going concern, inventory observation, internal control, the Paycheck Protection Program (PPP) and other relief funding.

[The Center for Plain English Accounting \(CPEA\)](#), our "national office" for small-mid size firms, issued plain-English reports on topics such as long-lived asset impairment considerations, goodwill impairment testing, firm practice risks, observing inventory counts, illustrative disclosures, not-for-profit accounting for COVID-related funding and other financial reporting considerations, pandemic lease concessions, employee benefit plan audits and other audit challenges.

## 2020 EAQ areas of focus

The AICPA Professional Ethics Division developed articles on important ethical considerations when assisting clients with PPP loan applications and forgiveness, such as, [“Lenders and PPP Loans: How Can CPAs Help?”](#), [“Ethical Implications to Consider for COVID-19 PPP Loan Applications”](#) and [“Impact of Accepting PPP Agent Fees on Independence.”](#) The Ethics Division also recorded three episodes of the [“Ethically Speaking” podcast](#) on related topics (episodes 13, 19 and 20).

In addition to developing resources, we also helped auditors on an individual basis. Staff for the Accounting & Auditing Technical Hotline guided an increased number of callers through questions related to auditing and ethical implications during the pandemic.

Figure 1: COVID-19 audit implications by the numbers\*:

490,160

views of the blog posts and *Journal of Accountancy* articles and quizzes

96,469

views of the Q&A videos

32,094

visits to the COVID-19 Audit & Assurance resource center

8,994

COVID-19 audit resources accessed

7,524

webcast attendees<sup>1</sup>

\*Data from Jan. 1, 2020, through Dec. 31, 2020

<sup>1</sup> “2020 Supplement and COVID-19 Single Audit Implications,” “COVID-19 Audit Implications,” “CPEA Webcast: 3rd Quarter A&A & COVID-19 NFP Issues + Compliance Supplement,” “OMB Supplement Addendum and the Latest COVID-19 Single Audit Implications” and “Peer Review Update: Performing System Reviews in a COVID-19 World.”

## Auditing revenue recognition

### Why auditing revenue recognition?

The Financial Accounting Standards Board's (FASB) new revenue recognition standard, FASB ASC Topic 606, *Revenue From Contracts With Customers*, is one of the most significant accounting standard changes in history. As a result of the coronavirus pandemic, private companies were given the option to delay the implementation of ASC 606. On May 20, 2020, FASB elected to delay implementation of ASC 606 for annual reporting periods beginning after Dec. 15, 2019, and interim annual reporting periods beginning after Dec. 15, 2020 (one-year deferral). However, while many opted to delay, others completed their implementation efforts.

In 2020, we focused on educating auditors on the requirements of the standard as well as independence implications. As clients implement ASC 606, they may look to their auditors for guidance. However, auditors must not overstep to the point where they impair their independence.

### What we did in 2020

#### Standards:

[The ASB issued](#) Statement on Auditing Standards No. 143, Auditing Accounting Estimates and Related Disclosures, to supersede SAS No. 122 section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures. The new auditing standard aims to provide more robust guidance for auditors addressing an increasingly complex financial reporting environment and will affect how auditors approach their evaluations of accounting estimates that have an impact on revenue recognition. It became effective July 2020 for audits of financial statements for periods ending on or after Dec. 15, 2023.

#### Awareness:

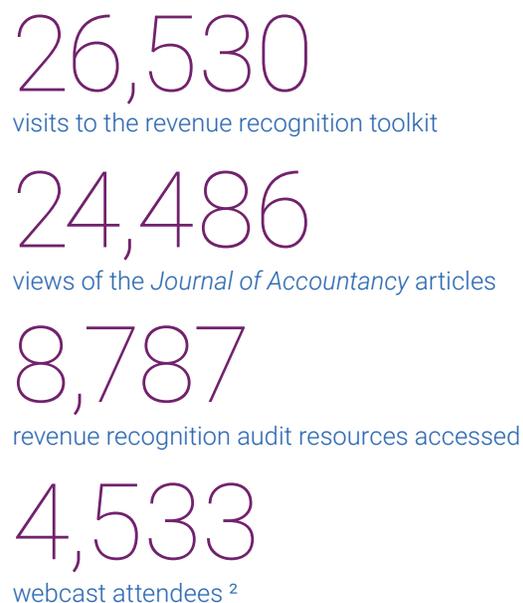
The EAQ team and the Peer Review Program worked together to raise awareness of the biggest risk areas associated with auditing ASC 606. We educated auditors on those risks and directed them to relevant resources through a campaign featuring [Journal of Accountancy](#)

[articles](#), [an educational quiz](#), [podcasts](#), social-media advertisements and more communications. AICPA subject-matter experts also shared their insights at virtual conferences and in articles written for [AccountingWEB](#) and [Corporate Compliance Insights](#).

#### Resources and learning:

We expanded our revenue recognition toolkit at [aicpa.org/revenuerecognition](#) to include a section on audit-specific resources, including resources to help auditors maintain their independence. One of those resources is [a practice aid](#) that walks through the five steps to ASC 606, associated risks and possible audit procedures to incorporate into engagements. Other resources included a [webcast](#), an internal inspection aid, a documentation example and a staff training workshop presentation. The AICPA also updated its [Revenue Recognition: Audit and Accounting Guide](#) and released [a guide on credit losses](#).

Figure 2: Auditing revenue recognition by the numbers\*:



\*Data from Jan. 1, 2020, through Dec. 31, 2020

<sup>2</sup> "ASC 606: What Auditors Need to Know," "Auditing Revenue under ASC 606," "Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know" and "Revenue Recognition: Mastering the New FASB Requirements."

## Risk assessment and response

### Why risk assessment and response?

Identifying, assessing and responding to risks of material misstatement are at the core of every audit. A 2017 survey of peer reviewers found that more than half of the over 400 audits they reviewed did not comply with the risk assessment standards. Additionally, with so many organizations financially affected by the COVID-19 pandemic and making an abrupt shift to remote working, fraud risk may be heightened in many audits.

### What we did in 2020

EAQ began efforts to educate auditors about risk assessment and common missteps starting in 2018. In 2020, we built upon this foundation by continuing to educate auditors about proper risk assessment through webcasts, [on-demand courses](#), virtual conference sessions and communications. We also directed auditors to the AICPA's risk assessment toolkit at [aicpa.org/riskassessment](http://aicpa.org/riskassessment).

On Aug. 27, 2020, the ASB exposed proposed revisions to AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, to address challenges detected through the EAQ initiative while promoting international convergence.

Given the heightened fraud risk due to the pandemic, we also issued a [Journal of Accountancy article on auditing fraud risk during a pandemic](#), a [related quiz](#) and a "Risk Assessment During the Recovery" webcast, which has since been adapted into an [on-demand course](#). We also wrote an article promoting heightened professional skepticism during the COVID-19 pandemic in [an article for Accounting Today](#).

Figure 3: Risk assessment and response by the numbers\*:



\*Data from Jan. 1, 2020, through Dec. 31, 2020

<sup>3</sup> "Fraud and Cash Receipts: Common Frauds and Internal Controls"; "Internal Control and COSO Essentials for Financial Managers, Accountants and Auditors"; "Purchasing, Inventory, and Cash Disbursements: Common Frauds and Internal Controls"; "Revenue and Cash Receipts: Common Frauds and Internal Controls"; "Risk Assessment Considerations in a SLG Financial Statement Audit"; "Risk Assessment Deep Dive: How to Avoid Common Missteps"; "Risk Assessment During the Recovery"; "Single Audit Fundamentals Part 3: Compliance Requirements and Internal Control over Compliance"; "Take Control of Your Audit: Avoid Common Internal Control Missteps"; and "Using Part 6 of the New Compliance Supplement on Internal Control."

<sup>4</sup> "Risk Assessment Deep Dive: How to Avoid Common Missteps."

## SOC engagements

### Why SOC engagements?

The System and Organization Controls (SOC) suite of services is a growing opportunity for CPAs to provide value to organizations. In March 2020, the AICPA issued [SOC for Supply Chain](#), a market-driven, flexible and voluntary framework for organizations to communicate certain information about their manufacturing, production or distribution system and the effectiveness of controls that mitigate supply chain risks.

The AICPA surveyed the Top 400 firms, which indicated that there has been a 29% increase in SOC 1 examinations since 2018 and a 49% increase in SOC 2 examinations during the same period. As more firms take on these services, they must invest in high-quality work. In 2020, we aimed to support firms in their commitment to performing quality SOC services.

### What we did in 2020

In March 2020, we issued [a guide for SOC for Supply Chain engagements](#). We also developed two new courses on SOC for Supply Chain as well as a webcast and other communications.

In November 2020, we issued nonauthoritative guidance on selected practice matters raised by members in connection with SOC 2 and SOC 3 examinations. [The FAQs](#) were shared in [a Journal of Accountancy article](#) and other communications.

We also issued [a paper on implications of the use of blockchain in SOC for Service Organization examinations](#) in December 2020. These implications were highlighted in a *Journal of Accountancy* article and other communications.

SOC 1 questions and answers were also included in COVID-19 A&A FAQs issued in spring 2020.

Figure 4: SOC engagements by the numbers\*:



\*Data from Jan. 1, 2020, through Dec. 31, 2020

# 2021 EAQ areas of focus

## COVID-19 audit implications

Uncertainty stemming from the pandemic could have lasting effects on how audits are performed. In 2021, we'll continue to support auditors through the pandemic, focusing on remote auditing, fraud risk, single audit implications of new federal relief funding programs and other audit considerations.

## Auditing revenue recognition

In 2021, we'll study areas where auditors are experiencing challenges related to ASC 606 and target our efforts to aiding them in those areas.

## Risk assessment and response

The current environment brought on by the pandemic lends itself to a heightened risk of fraud. We'll continue to educate auditors on the importance of proper risk assessment and how to avoid common missteps.

## Engagement acceptance and continuance

Research we performed in 2019 showed a correlation between audit quality and engagement partner experience. In 2021, we'll assist auditors in understanding the elements of a proper client assessment process to determine whether to continue with or accept a new client.

## Emerging attestation engagements

As more firms begin to offer clients services such as SOC for Cybersecurity and SOC for Supply Chain, it becomes more important to emphasize the importance of quality work. In 2021, we'll continue to encourage auditors to invest in quality if they choose to take on engagements in emerging areas of attestation, including sustainability assurance (also referred to as environmental, social and governance, or ESG).





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