

Examples of Matters in Peer Reviews Engagements with Year-Ends between 3/01/2022 and 6/31/2023¹

The AICPA uses data collected during peer reviews to learn about where firms are having trouble and develop 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 and provide them with tools to drive up their quality and overall "up the game on quality" in the profession this year. Accordingly, we are doing a deeper dive into specific accounting and auditing areas identified as having particular relevance to the profession.

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

Professional Standards

[Accounting and Review Services](#)

[Practice Areas](#)

[Governmental, Single Audit and HUD](#)

[ERISA](#)

[Service Organization Control Reports](#)

Accounting and Review Services

Preparation Engagements

- Failure to obtain an engagement letter for the period covered or include all language required by current professional standards in the letter.
- Failure to disclose the fact that substantially all disclosures have been omitted on the face of the financial statements or in the selected notes.
- Failure to include a statement that indicates that at a minimum, no assurance is provided on the financial statements.
- Failure to disclose departures from the financial reporting framework including the omission of the statement of cash flows.

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.

¹ 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 six 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, 2022, to December 31, 2022, its peer review is not due until June 30, 2023. Therefore, a January 31, 2022, year-end audit would not be included in the MFC data until approximately June 30, 2023. However, a December 31, 2022, year-end audit in the same scenario would be included in the MFC data around June 30, 2023, as well. Refer to 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.

Governmental, Single Audit and HUD

Disclosure and Presentation

- Failure to disclose whether the 10% de minimis indirect cost rate was used.

Documentation and Performance

- Failure to properly document independence considerations required by the Yellow Book including the evaluation of management's skill, knowledge, or 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.
- SINGLE AUDIT: Failure to use the appropriate sample size for tests of controls over compliance and substantive compliance.
- SINGLE AUDIT: Failure to properly document the procedures performed to address the federal program compliance requirements including omission of current year Compliance Supplement applicable to major federal programs in the work papers.
- SINGLE AUDIT: Failure to properly document testing of compliance requirements as listed in the Compliance Supplement.
- SINGLE AUDIT: Failure to document consideration of inherent risk, control risk, fraud risk, and detection risk over compliance for each compliance requirement that has a direct and material effect on each of the major programs.
- SINGLE AUDIT: Failure to properly document compliance testing including failure to include test of transactions for each compliance requirement for the major program.
- SINGLE AUDIT: Failure to properly document the firm's understanding of controls over specific compliance requirements such as allowable costs.
- 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.
- 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 including:
 - 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.
- Presentation of the total of a program cluster including proper identification of clusters as required by professional standards.
- Identification of COVID-19 related awards
- SINGLE AUDIT: Lack of documentation of consideration of subsequent events related to the major program and its compliance requirements.

ERISA

- Auditor's report, engagement letter, and/or management representation letter not updated for AU-C section 703.
- Investments improperly disclosed on the financial statements.
- Incomplete or unclear audit documentation in the following areas:
 - Risk assessment
 - Internal controls or walkthrough of those controls
 - Sampling
 - Reliance on and evaluation of SOC1 report, including testing the operating effectiveness of complementary user entity controls (CUECs)
 - Identification of all parties-in-interest in the audit workpapers

Service Organization Control (SOC) Reports

- Failure to include elements required by DC 200 and TSP 100 in the description of the system including:
 - The applicable trust services criteria and related controls
- Failure to include sufficient documentation to determine that sampling complied with the requirements of the AICPA Audit Sampling Guide in the service auditors report.
- Failure to include the results of monitoring controls for subservice organizations in the test of controls matrix.
- Failure to include critical elements required by current professional standards.
- Failure to date the management rep letter appropriately.
- Failure to appropriately implement SSAE 21 including the omission of required elements in the report such as:
 - Reference to DC200 in the scope paragraph
 - Statement that the practitioner is required to be independent and meet other ethical responsibilities
 - Identification of complimentary subservice organization controls in the description
 - A paragraph that states other information provided by service organization not subjected to the procedures applied in the examination.
 - Carve outs
 - Identification of the criteria against which the subject matter was measured or evaluated
 - Inclusion of all controls in control activity section
- Failure to obtain an engagement letter or failure to include required language in the engagement letter including:
 - Language concerning management responsibilities.
- Failure to have sufficient working paper support for information included in the report, such as lack of or poor documentation of:

- Support for correlation of management's statement of the requirements in the issued system description to the checklist questions and responses related to DC2 report disclosures.
- Suitability of design controls
- Procedures to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
- Evaluation of carved out subservice organization controls
- Evaluation of test exceptions
- Procedures to assess the suitability criteria to evaluate whether management's description of the service organization's system is fairly presented