

Examples of Matters in Peer Reviews Engagements with Year-Ends between 3/01/2021 and 6/31/2022¹

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](#)
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Practice Areas

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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
 - Consideration of going concern
- Failure to properly support and document the assessed level of risk in accordance with professional standards including:

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, 2021, to December 31, 2021, its peer review is not due until June 30, 2022. Therefore, a January 31, 2021, year-end audit would not be included in the MFC data until approximately June 30, 2022. However, a December 31, 2021, year-end audit in the same scenario would be included in the MFC data around June 30, 2022, 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.

- 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 properly identify and/or document the relevant risks and controls associated with the role of IT
- Failure to document linkage between risk assessment procedures and actual substantive procedures performed
- Failure to document fraud risk assessment procedures regarding inquiries with those in charge of governance and response to management override of controls
- Failure to appropriately address fraud considerations related to revenue recognition
- 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 properly adopt newer standards regarding the presentation of debt issuance costs and revenue recognition
- Failure to include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements
- 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 SSARS pronouncements
 - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information
 - Failure to date the report appropriately
 - 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 include all elements in the engagement letter (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

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 include all the required elements within the engagement letter
- Failure to cover all of the periods or the correct periods presented in the financial statements in the accountant's report

Preparation Engagements

- 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

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:
 - 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
 - All elements required by attestation standards in the engagement letter
 - A title or use an appropriate title
 - Date the letter in accordance with professional standards
- Failure to obtain a management representation letter
- Failure to provide appropriate documentation concerning agreed upon procedures
- Failure to obtain an engagement letter
- Failure to appropriately identify the specified parties, responsible party or subject matter in the engagement letter

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
- Failure to identify significant threats to independence that require the application of safeguards, along with the applicable safeguards applied to overcome the threats

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 adopt the latest professional standards with respect to revenue recognition
- Failure to fully implement the requirements of ASU 2016-14
- Failure to correctly classify long term debt on the cash flow statements
- Failure to include a statement of cash flows
- Failure to correctly segregate liabilities into current and noncurrent classifications
- Failure to include required disclosures concerning:
 - Policies related to goodwill
 - Long term debt for the next five years
 - Subsequent event disclosure related to potential negative financial impact due to COVID-19
 - Qualitative and quantitative management of liquid resources
 - Revenue recognition for ASC 606
 - Allocation of functional expenses
 - Risks and uncertainties
 - Use of estimates
 - Allowance for doubtful accounts
 - PPP and/or SBA loans
 - Pledged assets
 - Operating lease obligations
 - Classification basis and cost determination for inventory
 - Shares authorized, issued and outstanding for capital or common stock
 - 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 follow the new financial reporting model for Not For Profit financial statements in accordance with the requirements of ASU No. 2016-14
- 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
- Failure to properly classify current liabilities in the firm compiled classified balance sheets

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: reference to the engagement being performed in accordance with *Government Auditing Standards*, 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
- Failure to report findings in the appropriate form in the Schedule of Findings and Questioned Costs
- Inadequate documentation related to the agreed upon procedures engagement that accompanies a public housing authority or multifamily single audit

Disclosure and Presentation

- Failure to present the financial statements in accordance with professional standards including presentation of funds, missing significant policy footnotes, missing or insufficient disclosures, post-retirement benefits, debt, investments, subsequent events

Documentation and Performance

- Failure to properly document independence considerations required by Yellow Book including the evaluation of management's skill, knowledge, or experience to effectively oversee non-audit 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
- 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
- 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
 - Internal controls or walkthrough of those controls
 - Sampling
 - Reliance on and evaluation of SOC1 report

Service Organization Control (SOC) Reports

- Failure to include required elements in the report such as:
 - Complementary user entity controls
 - 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 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
 - Procedures to assess the completeness and accuracy of population files

Banking, including FDICIA

- Failure to include all elements required by professional standards in the accountant's report on internal controls including walkthroughs of the controls
- Failure to comply with the independence rules applicable to these engagements,
- 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
- Failure to properly disclose the methodology used to determine sample size or the adequacy of the method used
- Failure to obtain a representation letter

PCAOB

- Failure to include appropriate documentation related to:
 - Required communication with management
 - Independence
 - Sampling methodology
 - Risk assessment (and linkage of risks to procedures performed)
- Failure to undergo EQCR

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 include all representations required by the applicable professional standards in the management representation letter including:
 - The required elements regarding oversight and responsibility for multiple non-attest services performed
 - 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 including the identification of the applicable financial reporting framework for the preparation of the financial statement
- Failure to include all periods covered by the financial statement in the firm representation letter
- Failure to include disclosures regarding risks and uncertainties
- Failure to include the required footnote for liquidity and availability in financial statements
- Failure to clearly, sufficiently and adequately document the assessed level of risk at the relevant assertion level in accordance with professional standards including:
 - Setting control risk at less than high without testing the effectiveness of controls
- Failure to use updated terminology including "with and without donor restrictions"
- Failure to properly present net assets, functional expenses and/or liquidity in financial statements
- Failure to implement current professional standards regarding qualitative information that is useful in assessing liquidity and qualitative information that communicates how the entity manages its liquid resources available to meet cash needs within one year of the date of the statement of financial position
- Failure to include all required elements in the auditor's report including the statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements and a statement that the supplementary information is the responsibility of management and was derived from, and related directly to, the underlying accounting and other records used to prepare the financial statements