

This resource has been developed by the AICPA Peer Review Board to provide peer reviewers with assistance in writing deficiencies.

Guidance for writing deficiencies included in Engagement Review reports

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The criteria for identifying matters, findings, and deficiencies for Engagement Reviews are discussed in **PR-C Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews paragraphs .20.-.24*** Further, within the **PR-C Section 220 *Application and Other Explanatory Material .A7***, guidance provides an illustration of the aggregation of identified matters, their documentation, and their potential impact on the report rating.

Definition of deficiencies on an Engagement Review

PRC 100: Deficiency (engagement reviews). One or more matters that the review captain concludes result in an engagement that is not performed or reported on in conformity with the requirements of applicable professional standards in all material respects. Deficiencies should be documented in a peer review report with a rating of pass with deficiencies or fail.

Points to consider when writing deficiencies to be included in an Engagement Review report with a rating of Pass with Deficiencies or Fail

- a) What did the peer review disclose (ordinarily an engagement that fails to comply with professional standards in all material respects)? What was the failure to comply with professional standards in all material respects?
- b) An identification of the industry and level of service for any deficiencies that are determined to be industry specific. For example, when there are numerous generic disclosure deficiencies then the industry and level of service wouldn't be specifically identified. However, if the deficiencies are related to a specific industry (such as those unique to the construction contractor industry), then the industry and level of service would be identified.
- c) If any of the current deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, then that fact should be identified by stating, "This deficiency was noted in the firm's previous peer review."

On an Engagement Review, for best practices, written deficiencies should avoid:

- a) Including personal preferences. Deficiencies should be based on professional standards. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.
- b) Identifying the firm's policies and procedures.
- c) Referencing specific individuals, offices, or third party practice aides.

- d) Using undefined acronyms such as GAAP, CPE, or FASB.
- e) Identifying the exact number or frequency of occurrence. Terms such as in some instances or frequently should be used in a written deficiency.
- f) Identifying references to specific technical standards, unless it is critical to the understanding of the deficiency, in which case the deficiency should be written in a sufficient and succinct manner describing the technical standards in the proper context. Otherwise, the use of the general term professional standards should be used in a written deficiency.

Examples of deficiencies

The examples included in this section are for illustrative purposes only and assume that the review captain has already followed the standards, and other guidance in determining that findings identified have met the threshold for being a deficiency (to be included in a report with a rating of pass with deficiencies or fail). Actual deficiencies should be prepared based on the specific facts and circumstances. The examples are not intended to suggest that all of them would occur on a single Engagement Review.

1. Deficiency—On a review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified when the financial statements did not appropriately present or disclose matters in accordance with industry standards.
2. Deficiency—On a review engagement, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures. These deficiencies were noted on the firm's previous review.
3. Deficiency—Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to Statements on Standards for Accounting and Review Services (SSARSs). Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. In addition, the firm did not obtain management representation letters on review engagements.
4. Deficiency—During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm's previous peer reviews.
5. Deficiency—In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations and industry specific disclosures, as required by GAAP were not included in the financial statements, and the omissions were not disclosed in the accountant's reports.
6. Deficiency—During our review, we noted the firm did not modify its compilation reports to reflect that management has elected to omit substantially all disclosures. This deficiency was noted in the firm's previous peer reviews.

7. Deficiency—During our review, we noted that for the last few months of the peer review year that the sole practitioner did not have his individual license to practice public accounting as required by his state board of accountancy. As a result, the practitioner did not have his individual license for some of the engagements we selected for the peer review. Subsequently, the practitioner obtained the appropriate license.

8. Deficiency—During our review of the firm's engagement to prepare financial statements, we noted the firm did not obtain an engagement letter signed by both the firm and the client's management.