

*This resource is designed to provide peer reviewers with assistance in writing deficiencies and significant deficiencies.*

## Guidance for writing deficiencies (and significant deficiencies) included in reports

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The criteria for identifying matters, findings, deficiencies, and significant deficiencies for System Reviews are discussed in **PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews paragraphs .43-.47***. The guidance for aggregating and evaluating matters are discussed in section **PR-C 210, *paragraphs .48 – 56***. This resource assumes that the team captain has already made the determination that a deficiency or significant deficiency exists.

As defined in **PR-C Section 100 *Concepts Common to All Peer Reviews:***

**Deficiency (system reviews).** When evaluating the reviewed firm’s system of quality control taken as a whole, one or more matters that the team captain has concluded could create a situation in which the reviewed firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects. Deficiencies should be documented in a peer review report with a rating of pass with deficiencies.

**Significant deficiency.** One or more matters in a system review that the reviewer has concluded create a situation in which the reviewed firm’s system of quality control does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects. Significant deficiencies should be documented in a peer review report with a rating of fail.

### **Points to consider when writing deficiencies to be included in a report with a rating of *Pass with Deficiencies or Fail***

On a System Review, the deficiencies in the report should be written with a systemic orientation and include:

- a) What the firm's policies and procedures include or exclude (what the system is designed to do or not designed to do), and the particular reference to the applicable requirement of Statements on Quality Control Standards. The deficiency in the report articulates that the firm's system of quality control is not designed in accordance with professional standards or if designed appropriately, the firm's failure to comply with or document its compliance with an appropriately designed system.
- b) The systemic cause of the deficiency. What happened (design failure or pervasive compliance issues) that caused the deficiency? This is often the most difficult area to identify when writing a deficiency and should be determined in collaboration with the firm. It is extremely important to identify the systemic cause and not just the firm's failure to comply with professional standards in all material respects. This is ultimately what the firm will need to change (the design of its system of quality control or how the firm complies with an appropriately designed system) in order for the deficiency not to recur.
- c) The failure to comply with professional standards in all material respects (nonconforming) as a result of the deficiency or significant deficiency, if applicable.
- d) An identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific.
- e) An identification of must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency or significant deficiency (such as the failure to document several procedures performed on Employee Retirement Income Security Act [ERISA] audits).
- f) Grouping issues with the same systemic cause that meet the threshold of a deficiency, into a single deficiency.
- g) Using the term *significant deficiencies* as a caption before all of the identified deficiencies only when a report with a peer review rating of *fail* is issued.
- h) If any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, in either case, that fact should be identified by stating, "this deficiency was noted in the firm's previous peer review."

### **When writing deficiencies for a System Review, avoid:**

- a) Including personal preferences. Deficiencies should be based on professional standards and the firm's design of and its compliance with its system of quality control. Reviewers are occasionally surprised to find that some generally accepted professional standards are, in reality, only a preferred treatment by their firm.
- b) Referencing specific individuals, offices, or third-party practice aids.
- c) Using undefined acronyms such as GAAP, GAAS, CPE or FASB.
- d) Identifying the exact number or frequency of occurrence. Terms such as *in some instances* or *frequently* should be used.
- e) Identifying references to specific technical standards, unless it is critical to the understanding of the deficiency and in relation to the Statements on Quality Control Standards, in which case then 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.
- f) Grouping unrelated issues (different systemic causes) into a single deficiency.

- g) Including poor firm administration or engagement inefficiencies that ordinarily do not create a condition in where there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements in all material respects.
- h) Using titles preceding the deficiency that include *design deficiency* or *compliance deficiency* or the applicable functional element of quality control.

### Other matters

#### Design deficiencies

**Design matter**—When the reviewed firm’s system of quality control is missing a quality control policy or procedure or the reviewed firm’s existing quality control policies and procedures, even if fully complied with, would likely result in engagements not performed or reported on in accordance with professional standards.

To be effective, a system of quality control must be designed properly, and all of the quality control policies and procedures necessary to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects should be in place. Therefore, the review team will need to determine whether the quality control policies and procedures would be effective if they were complied with.

The team captain should follow the standards, interpretations, and other guidance in determining whether matters and findings identified have met the threshold for being a design deficiency (to be included in a report with a rating of *pass with deficiencies*) or a significant deficiency (in a report with a rating of *fail*). Deficiencies and significant deficiencies should be based on the specific facts and circumstances.

#### Compliance deficiencies

**Compliance matter**—When a firm’s properly designed quality control policy or procedure does not operate as designed, as evidenced by the failure of reviewed firm personnel to comply with such system.

Because a variance in individual performance and professional interpretation will affect the degree of compliance, adherence to all policies and procedures in every case generally is not possible. However, the degree of compliance by the personnel of the reviewed firm with its prescribed quality control policies and procedures should be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

The team captain should follow the standards, interpretations, and other guidance in determining whether matters or findings identified have met the threshold for being a compliance deficiency (to be included in a report with a rating of *pass with deficiencies*) or a significant deficiency (in a report with a rating of *fail*). Deficiencies and significant deficiencies should be based on the specific facts and circumstances.

### Determining whether a current deficiency was noted in connection with a prior peer review

When determining whether to identify that a current deficiency was noted in the previous peer review or peer reviews, the focus is the system of quality control weakness (that is, the systemic cause) noted in either the current report (deficiency or significant deficiency) and either the report or the FFCs in connection with the reviewed firm’s prior review. The team captain should read the prior report and FFCs and letter of response, if applicable, and evaluate whether the

actions outlined in the response have been implemented to determine whether the systemic cause is the same. The deficiency or significant deficiency should note that “This deficiency [or significant deficiency, as applicable] was noted in the firm’s previous review.”

If the actions have been implemented and the same engagement deficiencies are occurring (such as incomplete or omitted disclosure deficiencies), the team captain, in collaboration with the firm, should determine the weakness in the firm’s system of quality control that could be causing the engagement deficiencies to continue to occur. In this case, if the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm’s system of quality control. If the systemic cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

***Example 1 repeat vs non-repeat:***

The following comment and response were included on a FFC on a firm’s *prior review*:

*Comment*—The firm’s quality control policies and procedures require the firm to complete a disclosure checklist on all engagements. Our review discovered that these checklists were not completed on all engagements. Disclosure deficiencies were noted in related party transactions and lease commitments. None of these omitted or incomplete disclosures were considered significant departures from professional standards.

*Response*—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure checklist on all accounting and auditing engagements. These checklists will be completed by a member of the engagement team, reviewed by the engagement partner, and retained with the engagement working papers.

In the performance of the *current year’s* review, the team captain noted the firm personnel are completing a disclosure checklist on all accounting and auditing engagements. However, some very material disclosure deficiencies are still noted regarding share-based payment arrangements and accounting changes and error corrections.

**Comparison of prior peer review and current engagement deficiencies**

In this example, the firm reinforced its policy on the use of a disclosure checklist in its FFC response on the previous review. Therefore, the team captain must look for other weaknesses in the firm’s system of quality control related to the disclosure deficiencies.

The team captain noted that both share-based payment arrangements and accounting changes and error corrections were covered by recently issued or revised professional standards and that share-based payment arrangements was a complex area that often requires special training. Upon further investigation, the team captain also found that firm personnel have taken the CPE required by the state board of accountancy and the AICPA, but engagement partners had little or no recent CPE on current developments in accounting and auditing. Therefore, the team captain concluded the systemic cause of the disclosure deficiencies is a weakness in the firm’s professional development (Human Resources) policies because those policies do not require that sufficient courses be taken on new accounting pronouncements and on specialized areas. Because this was not noted in the prior review, the deficiency in the current review would not be identified as being noted on the previous peer review.

***Example 2 repeat vs non-repeat:***

The following comment and response were included in the FFC on a firm’s *prior review*:

*Comment*—The firm’s quality control policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity that did not include all required language to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor’s reports misleading.

*Response*—In a meeting held on June 23, 20XX, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters as specified by firm policy.

In the performance of the *current year’s* review, the review team confirmed that the meeting of June 23, 20XX took place and that the firm’s consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as accounting for derivatives and asset retirement obligations, were not presented or disclosed appropriately.

### **Comparison of prior peer review and current deficiencies**

Upon further research, the team captain discovered that the staff members researched these issues internally but failed to consult with the partner designated as the consultant for these complex issues as required under the firm’s system of quality control. Because the current deficiencies are caused by the same weakness in the firm’s system of quality control noted in the prior review (and the team captain determined on the current review that the findings met the threshold for inclusion as deficiencies in a peer review report with a rating of *pass with deficiencies*), this deficiency would be identified as being noted in the previous peer review.

### **Examples of deficiencies that might be included in the System Review report**

*The examples included in this section are for illustrative purposes only and assume that the team 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 significant deficiencies (in a report with a rating of fail). Actual deficiencies and significant 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 System Review.*

### **Leadership responsibilities for quality within the firm (“Tone at the Top”)**

The firm should promote an internal culture based on the recognition that quality is essential in performing engagements and should establish policies and procedures to support that culture. Such policies and procedures should require the firm’s leadership to assume ultimate responsibility for the firm’s system of quality control.

### **Illustrative examples**

**Deficiency**—The firm’s quality control policies and procedures in reference to leadership responsibilities for quality within the firm are not sufficient to provide reasonable assurance that the engagements are performed in accordance with professional standards. The firm’s quality control policies and procedures do not require the promotion of a quality oriented internal structure via clear, consistent, and frequent actions and messages from all levels of the firm’s management. During our review, we noted the reports on firm’s audits were issued prior to the completion of all required audit procedures, in an effort to meet tight deadlines. In our opinion,

this contributed to audit engagements that did not conform to professional standards in all material respects or support the issuance of the audit reports in the circumstances.

**Deficiency**—The firm’s system of quality control has not been designed to ensure commercial considerations do not override the quality of work performed, which is not compliant with the Statement of Quality Control Standards leadership responsibilities. During the firm’s monitoring procedures an engagement was identified as non-conforming, no action was taken, and there was no documentation of the firm’s evaluation of remediation, including the reasoning for not recalling and reissuing the reports, not notifying the client nor consulting with legal counsel. During our review, it was determined the firm did not take action due to the business implications of such actions. In our opinion, this contributed to audit engagements that do not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures have not been suitably designed to provide reasonable assurance of promoting a culture of quality required from all firm leadership. The firm’s quality control policies and procedures require that a partner with sufficient and appropriate experience and the requisite authority to implement those policies and procedures, be assigned the operational responsibility for the firm’s system of quality control. However, the firm’s leadership assigned this role to its tax partner who has no current or past responsibilities for accounting and auditing engagements nor experience with related systems of quality control. During our review, we noted that the firm’s system of quality control does not contain all of the elements and other matters essential to the effective design, implementation, and maintenance of the system. In our opinion, this contributed to work performed on a few engagements, specifically documentation, which did not conform to professional standards in all material respects or support the issuance of the audit reports in the circumstances.

**Deficiency**—The firm’s system of quality control has not been suitably designed such that the policies and procedures that address performance evaluation, compensation, and advancement with regard to its personnel in order to demonstrate the firm’s overarching commitment to quality. More specifically, feedback received from staff indicated pressure from leadership to come in under budget on engagements. In our opinion, this could contribute to audit engagements that do not conform to professional standards in all material respects.

### **Relevant ethical requirements**

The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The AICPA *Code of Professional Conduct* establishes the fundamental principles of professional ethics, which include responsibilities, the public interest, integrity, objectivity and independence, due care, scope, and nature of services.

### **Illustrative examples**

**Deficiency**—The firm’s quality control policies and procedures regarding relevant ethical requirements are not designed to provide reasonable assurance that the engagements are performed in accordance with professional standards. The firm’s quality control policies and procedures do not require that personnel be informed of all new accounting and auditing clients or engagements on a timely basis, which is not in accordance with the relevant ethical requirement of independence within the Statements on Quality Control Standards. During our review, we noted independence was impaired on an accounting engagement. Consequently,

the engagement was identified as non-conforming as the firm should not have performed the engagement due to familial relations that impede independence.

**Deficiency**— The firm’s quality control policies and procedures do not provide reasonable assurance that the firm will comply with relevant ethical requirements. The firm’s quality control policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that this partner left the firm in the early part of the year and his related responsibilities in this area had not been reassigned. In our opinion, this contributed to several of the firm’s personnel failing to sign such a representation. Written independence representations were subsequently obtained but there were instances where the firm was not independent with respect to the financial statements on which it reported, which caused the engagements to not conform to professional standards in all material respects.

### **Acceptance and continuance of client relationships and specific engagements**

The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements. These policies and procedures should be designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where the firm (1) has considered the integrity of the client, including the identity and business reputation of the client’s principal owners, key management and related parties, and those charged with its governance, and the risks associated with providing professional services in the particular circumstances; (2) is competent to perform the engagement and has the capabilities and resources to do so; and (3) can comply with legal and ethical requirements.

### **Illustrative examples**

**Deficiency**—The firm’s quality control policies and procedures regarding acceptance and continuance of clients are not designed to provide reasonable assurance that the firm will undertake engagements in which the firm’s personnel have the capabilities and resources to complete in accordance with professional standards. The firm’s quality control policies and procedures do not require the firm to evaluate whether to perform a specific engagement for an existing client, specifically if the level of service previously provided is changed. During our review, we noted instances where the firm had previously reported on compiled financial statements of a client and the current engagement included reporting on audited financial statements. The firm had no previous experience in conducting audits in the construction industry and during our review we noted that they failed to appropriately test construction-in-progress. In our opinion, this contributed to audit engagements in the construction industry that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures specify criteria that should be considered when making client continuance decisions and require that such decisions be documented, which is in accordance with Statements on Quality Control Standards. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm’s policies. Furthermore, we noted instances where the firm accepted engagements in a specialized industry although it had no experience or expertise in that industry, it did not update its library to include reference materials related to that area of practice, nor did the firm consult with qualified individuals outside of the firm. In our opinion, this

contributed to certain industry specific audit procedures not being performed on the audit of an employee benefit plan subject to ERISA, thus deeming the engagement non-conforming.

**Deficiency (acceptance)**—The firm’s quality control policies and procedures were not complied with in reference to acceptance and continuance of specific engagements. The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance. During our review, we noted the firm accepted engagements subject to ERISA when it had no experience in that area, its library did not include materials related to such engagements, nor did the firm identify an outside consultant to assist with these standards. In our opinion, this contributed to audit engagements performed under ERISA that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures were not complied with in reference to leadership responsibilities for quality within the firm. As described in the preceding deficiency, the firm accepted an engagement that was not in compliance with its quality control policies and procedures. The partner who accepted the engagement allowed commercial considerations to override the quality of work performed. Additionally, the partner pressured the manager to complete the engagement without providing sufficient time. In our opinion, the tone at the top element is not in compliance with the quality standards, and therefore does not provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

### **Human Resources**

The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles to (1) perform its engagements in accordance with professional standards and regulatory requirements and (2) enable the firm to issue reports that are appropriate in the circumstances. Such policies and procedures should address (a) recruitment and hiring, if applicable; (b) determining capabilities and competencies; (c) assigning personnel to engagements, if applicable; (d) professional development; and (e) performance evaluation, compensation, and advancement.

Per PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*: There may be circumstances in which the reviewer identifies few findings in the work performed by the firm but may conclude that the firm’s system of quality control would not be effective if complied with. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to the policies and procedures necessary in areas such as human resources (hiring, assigning personnel to engagements, and advancement) and acceptance and continuance of clients and engagements. A reviewer may conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency or significant deficiency.

### **Illustrative examples**

**Deficiency (emphasis for GAS)**—The firm’s quality control policies and procedures addressing the human resources component of engagement assignments are not designed to provide the firm with reasonable assurance that the engagements are being performed in accordance with professional standards and regulatory requirements. The firm’s quality control



policies and procedures do not require the practitioner in charge of an engagement to have certain knowledge, skills, and abilities (competencies) necessary to fulfill their engagement responsibilities, including knowledge of the industry in which the client operates, and an understanding of the professional standards related to that industry. During our review, we noted a few engagements where industry related disclosures were not included in the financial statements of the entity. This included audits of not-for-profit organizations subject to *Government Auditing Standards*. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures are not designed to provide reasonable assurance that the engagement team has the requisite knowledge to perform engagements in accordance with professional standards. The firm’s quality control policies and procedures do not require personnel to obtain CPE covering accounting and auditing topics directly related to their assignments, and such policies and procedures also do not ensure that personnel assigned to engagements will have the degree of technical training and proficiency required in the circumstances. Our review disclosed that the firm’s personnel complied with the CPE requirements of the state board of accountancy, but that insufficient courses had been taken covering auditing topics and none had been taken during the past three years covering the specialized industry in which many of the firm’s audit clients operate. Consequently, we noted the firm’s audit of employee benefit plans subject to ERISA did not include adequate testing of participant data. In our opinion, the lack of CPE in the aforementioned specialized industry contributed to audit engagements that did not conform to professional standards in all material respects.

**Deficiency (emphasis for GAS)**—The firm’s quality control policies and procedures addressing human resources are not designed appropriately to provide it with reasonable assurance that the firm has sufficient personnel with the competence to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. The firm’s quality control policies and procedures require all personnel to comply with applicable state board of accountancy continuing professional education (CPE) requirements. The personnel were in compliance with this policy; and the firm was not yet subject to the CPE requirements of *Government Auditing Standards*, a new practice area for the firm. During our review, we noted individuals assigned to the audits of not-for-profit entities subject to *Government Auditing Standards* insufficiently understood the unique requirements applicable to the engagement. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s system of quality control has not been designed such that the policies and procedures address performance evaluation, compensation, and advancement (including incentive systems) with regard to its personnel in order to demonstrate the firm’s overarching commitment to quality.

### **Engagement performance**

The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Required policies and procedures

should address engagement performance, supervision responsibilities, and review responsibilities.

### ***Illustrative examples***

***Deficiency***—The firm’s quality control policies and procedures are not designed to provide reasonable assurance that engagements are consistently performed in accordance with professional standards and regulatory and legal requirements. The firm requires that its non-industry specific audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. During our review, we noted there was no evidence that the auditor reviewed and evaluated the type 2 SOC 1 report which they relied upon in the firm’s audit of an employee benefit plan. In our opinion, this contributed to audits of employee benefit plans subject to ERISA that did not conform to professional standards in all material respects.

***Deficiency***—The firm’s quality control policies and procedures addressing engagement performance are not complied with on a routine basis. The firm’s quality control policies and procedures require use of standard audit programs that remind the firm to perform required compliance testing of internal controls, in accordance with professional standards. During our review, we noted instances where required compliance testing of internal accounting controls was not performed. Although the firm has represented that the testing occurred, we were unable to find any evidence to support the firm’s representation that compliance testing was performed, as required by professional standards. In our opinion, this contributed to audit engagements that did not conform to professional standards in all material respects.

***Deficiency***—The firm’s quality control policies and procedures over engagement performance are not designed to provide reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm’s quality control policies and procedures do not specifically identify the criteria for which engagements should be subject to an engagement quality control review, nor the criteria for the eligibility of engagement quality control reviewers. During our review, we noted audits were performed for clients in high-risk industries that were not subject to engagement quality control review. In our opinion, this contributed to audit engagements that did not conform to professional standards in all material respects.

### **Monitoring**

The firm should establish policies and procedures designed to provide the firm and its engagement partners with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively, and complied with in practice. Monitoring is an ongoing consideration and evaluation process.

### ***Illustrative examples***

***Deficiency***—The firm’s quality control policies and procedures related to its monitoring function are not designed to provide reasonable assurance that the engagements are consistently performed in accordance with professional standards. The firm’s policies and procedures do not require the performance of monitoring procedures that are sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and regulatory requirements. During our review, we noted that the partners were unaware of several new professional standards issued during the year and the firm failed to register in a neighboring state where it provided accounting and auditing services, as required by the neighboring state’s

board. In our opinion, had the firm's monitoring procedures been adequately designed, these deficiencies, which are discussed further in other deficiencies included in the peer review report, would have been detected and corrected timely.

**Deficiency**—The firm's system of quality control has not been designed such that sufficient and appropriate resources have been designated for the development, documentation and support of its quality control policies and procedures. During our review, we noted the firm did not perform annual monitoring and inspection procedures. While there were no nonconforming engagements identified during the firm's peer review, the lack of monitoring and inspection indicates the firm's system of quality control taken as a whole does not provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects.

**Deficiency**—The firm's quality control policies and procedures addressing the firm's monitoring function have not been complied with to provide reasonable assurance that the engagements are being performed in accordance with professional standards. The firm's quality control policies and procedures require that the firm's post-issuance review procedures be sufficiently comprehensive to enable the firm to assess conformity with all applicable professional standards and the firm's compliance with quality control policies and procedures. However, the nature and extent of the deficiencies outlined in this report demonstrate the post-issuance review procedures were ineffective in monitoring the firm's adherence to its quality control policies and procedures. In our opinion, the ineffective post-issuance review procedures prevented the firm from achieving the objectives of monitoring procedures and contributed to audit engagements of broker-dealers and not for profit entities that did not conform to professional standards in all material respects.

#### **Deficiencies with multiple matters with the same systemic cause**

Matters from multiple engagements can result in a singular deficiency, provided those matters have the same systemic cause. None of the engagements that produced the matters even have to be nonconforming for this to be the case. The reviewer may determine the matters may not individually represent a deficiency, but upon aggregation, represent a deficiency in the firm's system of quality control. In evaluating potential deficiencies, the review team should consider all aspects of a firm's system of quality control and try to determine the systemic cause(s) of the applicable matters.

#### **Illustrative examples**

**Deficiency**—The firm's quality control policies and procedures addressing human resources are not designed appropriately to provide it with reasonable assurance that the firm has sufficient personnel with the competence to perform engagements in accordance with professional standards and applicable legal and regulatory requirements. The firm's quality control policies and procedures require all personnel to comply with applicable state board of accountancy continuing professional education (CPE) requirements. The personnel were in compliance with this policy; and the firm was not yet subject to the CPE requirements of Government Auditing Standards, a new practice area for the firm. During our review, we noted individuals assigned to the audits of not-for-profit entities subject to Government Auditing Standards insufficiently understood the unique requirements applicable to the engagement. In our opinion, this contributed to audit engagements performed under Government Auditing Standards that did not conform to professional standards in all material respects.

**Deficiency**—The firm’s quality control policies and procedures are not adequate related to the sufficiency and appropriateness of disclosures for engagements in specialized industries. During our review, we noted the firm engagements subject to Government Auditing Standards and other not-for-profit industry engagements lacked all necessary disclosures. In these engagements, none of the procedures performed by the audit team were designed to assess the sufficiency and appropriateness of the disclosures included with the financial statements. The firm instead relied on the knowledge and experience of its clients. While none of the audit engagements reviewed were determined to not conform to professional standards in all material respects, in our opinion the firm’s system is still not designed appropriately.