OMB and AICPA Update on Single Audits: Federal and Auditor Perspectives

2011 MACPA Government and Not-for-Profit Conference

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What we will cover

- Discuss the recent activities of the AICPA Auditing Standards Board (ASB)
- Single Audit Activity
- Other Compliance Audit Activity
- Other Governmental Audit Quality Center (GAQC) Activities and Tools
Recent Activities of the ASB

SAS No. 117, Compliance Auditing

- SAS responds to federal study on single audit quality
- Supersedes SAS 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*
- Issued in December 2009; was effective for first time for June 30, 2010 year-ends
- In new clarity format
SAS No. 117, Compliance Auditing

- Applicable when performing a compliance audit in accordance with all of the following:
  - GAAS
  - The standards for financial audits under *Government Auditing Standards* (AKA: Yellow Book or GAGAS)
  - A governmental audit requirement requiring the auditor to express an opinion on compliance

- A compliance examination under AT 601 performed when above criteria not met

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SAS No. 117, Compliance Auditing

- Revises AU sec. 801 by:
  - clarifying its applicability.
  - updating it for changes in the compliance audit environment.
  - establishing a requirement for the auditor to adapt and apply GAAS, including the risk assessment and fraud standards (all of which primarily address audits of financial statements), to a compliance audit and providing guidance on how to do so.
  - identifying the AU sections that are applicable to a compliance audit and those that are not applicable.
  - defining terms related to a compliance audit.
  - identifying auditor requirements that are unique to a compliance audit.
  - providing guidance on the factors an auditor may consider in evaluating whether an entity has materially complied with the applicable compliance requirements.
  - identifying the elements to be included in an auditor’s report on compliance.
**GAS-A133 Audit Guide**

- Primary changes in chapters 5 through 13
- Report illustrations updated (and also available on the GAQC Web site)
- 2011 edition in process and expected this summer

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**Omnibus SAS Exposure Draft**

- **Revisions to SAS 117**
  - Appendix regarding what auditing standards do NOT apply to compliance audit to be revised
  - Reporting changes
- **New communication requirement** (previously from SAS 74)
SAS No. 119

- Effective for audits of financial statements for periods beginning on or after 12/15/10.
  - Early application is permitted
- Supersedes (along with SAS No. 118) AU 551
- Certain conditions must be met to report “in-relation-to”
- Required procedures
- Reporting

Other Tools - AICPA Publications
Single Audit Activity

Single Audit Quality

Address federal study findings/recommendations

Work Completed

• SAS No. 117 (previously discussed)
• New sampling guidance for single audits
• Practice Aids
  • Schedule Of Expenditures Federal Awards
  • Internal Control/Compliance Responsibilities in single audit

Still Active

• Reporting audit findings in a single audit
• Single audit training needs
• Peer review
Sampling

- Developed sampling chapter in 2009 GAS/A-133 Audit Guide
- Includes suggested minimum sample sizes and more!
- Executive summary of chapter available on GAQC Web site
- GAQC members can access an archived member web event on single audit sampling that covers the new chapter
- GAQC members can also access an archived member web event on financial statement audit sampling

Topics Included in Chapter

- Statistical versus nonstatistical
- Attribute sampling approach
- Procedures that do not involve sampling (individually important items)
- Population considerations
- Sample sizes
- Sample selection methods
- Deviations and exceptions
- Dual-purpose testing
- Documentation
GAQC SEFA Tools & Aids

- Clarifying guidance added to 2008 GAS/A133 Guide
- SEFA Practice Aids (both for the auditor and auditee) issued and available on the GAQC Web site at:
  [http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/Single%20Audit%20Practice%20Aids.aspx#SEFA](http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/Single%20Audit%20Practice%20Aids.aspx#SEFA)
  - Audit Program and Disclosure Checklist for Auditors
  - Document for auditees to accumulate important information on federal awards and a Disclosure Checklist for Auditees
- The GAQC has provided a member event that has been archived on the GAQC Web site (under the Resources tab) to further help you understand SEFA responsibilities and the Practice Aids

Compliance and Internal Control Over Compliance

- Clarifying guidance added to 2008 GAS/A133 Guide
- Developed practice aids to illustrate:
  - Documenting direct and material compliance requirements (matrix)
  - Documenting internal control over compliance – understanding and testing (both narrative and checklist versions available)
  - Dual-purpose testing
- GAQC member Web event on the practice aids available on the GAQC Web site
GAQC Practice Aids for Documenting Internal Control Over Compliance and Compliance Testwork

Available Now!
- GAQC members – free access to word and excel versions on GAQC Web site
- GAQC members and non-members – small fee ($39.99) for purchase of electronic PDF product where responses can be input into form (order through CPA2BIZ at http://www.cpa2biz.com)

Product # 006662PDF

Peer Review
- In response to the PCIE Report the AICPA created the Practice Monitoring Task Force.
  - Areas of Focus:
    - Establish consistent measures of A-133 deficiencies
    - Develop guidance and training materials for peer reviewers
- Interpretation 63-1a issued to ensure A-133 engagement selection (effective for peer reviews commencing on or after September 1, 2009)
- Peer review checklists modified to focus peer reviews of single audits on areas known to be problematic
- PMTF Direction and Considerations
  - Recommended Enhanced Peer Review Report Acceptance and Oversight Procedure Changes
Peer Review

Homework
- Review both Parts A and B of the peer review checklists
- Use the peer review checklists as a quality control tool (before, during, and at the completion of your engagements)
- GAQC members can listen to an archived GAQC Web event entitled "AICPA Peer Review: What is Changing and How Being a Peer Reviewer Can Enhance Your Practice" at: http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/Pages/ArchivedGAQCPeerReviewWebEvent.aspx

New QCR and Desk Review Checklists
- Inspector General community has recently issued the following checklists for use by federal agencies
  - Guide for Quality Control Reviews of OMB Circular A-133 Audits
  - Guide for Desk Reviews of OMB Circular A-133 Audit Reports
- Both can be found at: http://www.ignet.gov/pande/audit1.html#reports (look under Single Audit Guides)
- Consider using these checklists as an additional QC tool
Keep in Mind…

- Change regarding impact of loan programs
- No more waivers and effect on low-risk auditee status
- Continued Recovery Act implications
  - Major program determination
  - More federal agency follow-up on findings
  - More quality control reviews
- Watch out for federal agency “interpretations” that conflict with requirements of Circular A-133 or Compliance Supplement

GAQC Recovery Act Activities

Recovery Act Resource Center
- On GAQC Web site
- Includes:
  - Archived GAQC events
  - Links to Recovery Act GAQC Alerts and tools
- Open to public

Advocacy Efforts
- Input on federal audit guidance
- Early reporting of control deficiencies relating to Recovery Act funds
- Monitor congressional activities
Using the Catalog of Federal Domestic Assistance

- Certain problems have been noted with CFDA.gov (e.g., erroneous notations regarding applicability of single audit)

- If you have a question about the reliability of CFDA.gov:
  - Check the Compliance Supplement
  - Contact the federal agency single audit coordinator

Other Compliance Auditing Activities
Housing and Urban Development Activity

- Worked with HUD to develop updated illustrative reports for the HUD Consolidated Audit Guide to reflect SAS No. 117
  (http://www.hud.gov/offices/oig/reports/auditguide/sas117-memo-examples.pdf)
- HUD extension of HUD Guide to supervised mortgagees
- HUD in process of modifying HUD Guide
- GAQC has HUD information page that is largely open to the public
  http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/HUDINFORMATION/Pages/default.aspx

Other Federal Agency Efforts Relating to For-Profit Entities – A New Trend

- GAQC has worked with the following federal agencies over the last year
  - Department of Energy Audit Guide
  - Department of Commerce Broadband Technology Opportunities Program Program-Specific Guide
  - Department of Education
    - Lender Compliance Attestation Guide for Lenders Holding Federal Family Education Loans
    - Lender Servicer Financial Statement Audit and Compliance Attestation Guide for Lender Servicers that Service Federal Family Education Loans
  - Department of Agriculture
    - Rural Utilities Service (Broadband)
Other Governmental Audit Quality Center (GAQC) Activities and Tools
www.aicpa.org/GAQC

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Other Tools

- Single audit fundamentals series available for GAQC members on the GAQC Web site (free with no CPE)
  - Single Audit Fundamentals Part I: What is a Single Audit? A Basic Background & Overview
  - Single Audit Fundamentals Part II: The Mysteries of Major Program Determination
  - Single Audit Fundamentals Part III: Understanding and Testing Compliance Requirements and Related Internal Control over Compliance
  - Single Audit Fundamentals Part IV: Overview of Single Audit Reporting Requirements and Available Resources

- Now available to ALL with a CPE option at:
  - http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/PRDOVR~PC-154260/PC-154260.jsp

Other Tools

- Archived GAQC web event covering the Yellow Book Exposure Draft available on GAQC Web site
  - Presenters included GAO and AICPA Ethics staff, and a practitioner on AICPA Ethics committee

- Archived GAQC web event covering Yellow Book fundamentals also available on GAQC Web site

- Both events open to the public

- Can be found on GAQC Web site at:
  - http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/Pages/Archived%20GAQC%20Conference%20Calls.aspx
Looking Forward

- New Yellow Book
- Single audit training requirements?
- Findings working group output
- Continued look at how peer review can be enhanced in this area
- Continued effects from Recovery Act
- Changes to single audit rules?
  - Threshold
  - Compliance requirements
  - Timing
- Continued support to members

Questions ??????