Governmental Auditing Standards and OMB Circular A-133 Update

The Ohio Society of CPAs
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Not-For-Profit Conference Session 14: 2:30 – 3:45 pm

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Objectives

- Overall: Provide information to help plan your 2012 audits
- Current environment of NPOs and GAS/OMB A-133 issues
- Governmental Auditing Standards Update
- OMB Circular A-133 Update
- Additional Resources

Governmental Auditing Standards and OMB Circular A-133 Update

Current Environment

Current Environment

- Current environment's effect on the financial statement / compliance audit
- Economic issues
- New government regulations and standards / grant requirements
- New auditing / accounting standards
- Fee pressures

Governmental Auditing Standards and
OMB Circular A-133 Update

Governmental Auditing Standards Update

SAS No. 117 Compliance Auditing

- AICPA Auditing Standards Board (ASB)
- Responding to audit **quality concerns** raised from federal study on a sample of audits performed in accordance with the Single Audit Act and OMB A133 applicable to federal awards.
- Issued December 2009
- Effective for years ending on or after June 15, 2010
- Superseded SAS 74: Compliance Auditing Consideration in Audits of Governmental Entities and Recipients of Governmental Financial Assistance
- Applicable for compliance audits in accordance with all of the following
  - GAAS
  - Government Auditing Standards (GAGAS or Yellow Book)
  - Government audit requiring Auditor to express and opinion on compliance.

SAS No. 117 Compliance Auditing

- Clarifies compliance audit applicability in relation to auditing standards.
- Updating terms, definitions to conform to updated compliance terminology.
- Requirement to apply GAAS including risk assessment standards and fraud standards to a compliance audit
  - Previously AU/GAAS focus was financial statements audits
- Clarifies which AU standards are applicable and not applicable to a compliance audit.
- Guidance on evaluating whether material compliance with regulatory requirements.
- Auditor's reports on compliance: elements and examples.

SAS No. 118: Other Information in Documents Containing Audited Financial Statements

- **SAS No. 118: Other Information in Documents Containing Audited Financial Statements**
  - NPO typically issues annual report, reports issued to government agencies
  - Auditor should read the Other Information
  - Identify any
    - Inconsistencies
    - Misstatement of Facts
    - Determine whether audited FS or Other Information needs to be revised
    - If management does not change, Auditor should
      - Modify opinion;
      - Withhold Auditor's report; or
      - Withdrawal when possible
  - Effective for audits of financial statements for **periods beginning on or after** December 15, 2010. Early adoption permitted.

SAS No. 118: Other Information in Documents Containing Audited Financial Statements

- If auditor finds material inconsistencies between audited FS and other documents, these must be communicated
- Illustrative disclaimer language is provided within the standard ; not required
- Discuss material misstatements of fact

SAS No. 119: Supplementary Information in Relation to the Financial Statements as a Whole

- Engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- NPO typically includes consolidating schedules, other organizational purpose
  - **Schedule of Expenditures of Federal Awards.**
    - Additional reporting considerations
    - Required procedures
    - Certain conditions must be met to report “in relation to” the financial statements as a whole
- Excludes **Required Supplementary Information (RSI)** that is considered necessary for the FS to be fairly presented in accordance with the applicable financial reporting framework.
  - Covered under SAS No. 120.
- Effective for audits of financial statements for **periods beginning on or after** December 15, 2010. Early adoption permitted.

Clarity Standards Affecting Auditing Standards Related to Compliance

- Released by the Auditing Standards Board, effective for periods ending on or after December 15, 2012
- Clarity project began in 2007 – purpose is to clarify and converge AICPA audit, attend, and quality control standards with those of the International Auditing and Assurance Standards Board (IAASB)
  - Special drafting conventions used to make standards easier to read, understand and apply
  - Specifies more clearly the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with GAAS
  - Extensive format changes, but not substantial changes to requirements
- SAS No. 123 amends SAS No. 117 and SAS No. 118
  - Minor changes for SAS No. 117
  - For SAS No. 118 – changes "release date" to "date of the auditor's report"

Government Auditing Standards (GAGAS) (Yellow Book)

- New "interim version" released in **August 2011** by the General Accounting Office (GAO) - Previous version was July 2007
  - www.gao.gov/yellowbook
  - Interim version – until AICPA ASB completes clarify standards
  - Final version released **December 2011**
- Effective dates:
  - Financial audits and attestation engagements is for periods ending on or after December 15, 2012
  - Performance audits is for audits beginning on or after December 15, 2011
  - Early implementation not permissible BUT need to consider now as it is effective for the **year** or **period** ending in this year
- Focus of major revisions
  - Incorporate the modernization of auditing standards
  - Efficiency/streamlining applicable information with other standards setters
  - Address issues GAO observed/identified
  - Respond to needs expressed by Auditors that have been performing audits in accordance with GAGAS.

Government Auditing Standards (GAGAS) (Yellow Book)

- Chapter 1: Foundation and Ethical Principles
- Chapter 2: Standards for Use and Application of GAGAS
- Chapter 3: General Standards
  - Independence –
    - Most significant changes
    - AICPA SAS conceptual framework
  - Professional Judgment
  - Competence – CPE Requirements clarifications
  - Quality Control - clarifications
- Chapter 4: Standards for Financial Audits
  - Developing Elements of a Finding
  - Audit Documentation
  - Other sections
- Chapter 5: Standards for Attestation Engagements
  - Examinations, Reviews, Agreed-upon Procedures
- Chapter 6: Field Work Standards for Performance Audits

Government Auditing Standards (GAGAS) (Yellow Book) Independence

- What is a threat?
  - Circumstance that could impair independence
- What is a safeguard?
  - Apply safeguards to eliminate or reduce significant threats to an acceptable level
- Documentation requirements:
  - Document threats
  - Document safeguards applied
  - Assess management's SKILLS, KNOWLEDGE, EXPERIENCE (SKE), and document assessment
  - Document understanding with the client regarding the nonaudit services to be performed
- Several practice aids available from the AICPA to apply new rules

Government Auditing Standards (GAGAS) (Yellow Book) Independence

- What are the seven categories of threats to independence?
  1. Self-interest threat – financial or other interest
  2. Self-review threat
  3. Bias threat (political, ideological, social, etc.)
  4. Familiarity threat
  5. Undue influence threat
  6. Management participation threat
  7. Structural threat – unique to government

Government Auditing Standards (GAGAS) (Yellow Book) Independence

- What are examples of safeguards that can be applied?
  - Consult a professional organization or regulatory authority
  - Consult another auditor
  - Discuss independence with those charged with governance
  - Assign separate engagement personnel
  - Obtain secondary review for professional not involved with engagement

Government Auditing Standards (GAGAS) (Yellow Book) Independence

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- Documenting our Assessment of Skills, Knowledge, or Experience (SKE)
  - If no one in management is willing and able to oversee the nonaudit services, then independence is considered impaired
  - We have always been required to evaluate or assess management's SKE, but now it must be documented
  - Management does not need to know how to perform the service, but must be able to oversee the service
  - Considerations of management's SKE:
    - Understanding of the services being provided
    - Knowledge of the entity's business and industry
    - General business knowledge
    - Education, licenses, accreditations, and memberships in professional organizations
    - Position at the audited entity

Government Auditing Standards (GAGAS) (Yellow Book)

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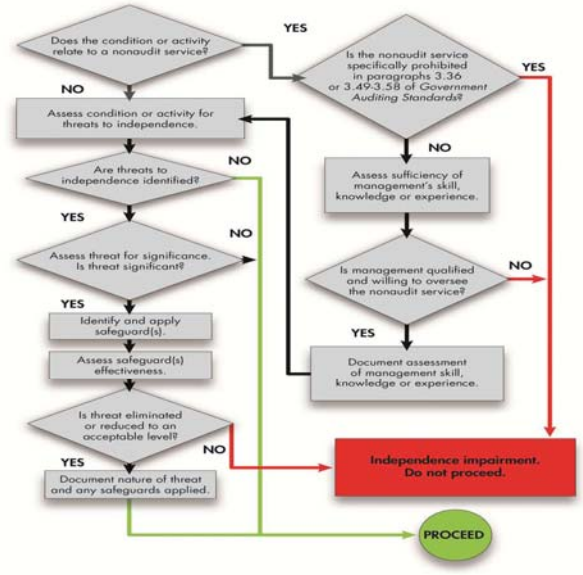

AICPA Practice Aid

Government Auditing Standards (GAGAS) (Yellow Book) Independence

- Practice Aid developed by AICPA, GAQC, Ethics and Peer Review Teams
  - Federal Agency reps have also reviewed the practice aid and provided feedback – positive response
  - Assists auditors in applying independence conceptual framework
  - Provides for compliance with yellow book documentation requirements
  - See additional resources slides

Governmental Auditing Standards and OMB Circular A-133 Update

OMB Circular A-133 Update

2011 OMB Circular A-133 Compliance Supplement

- A133/Single Audit required for non-Federal entities when federal awards expended within one reporting year greater than $500,000
- Released June 1, 2011
- http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2011
- Effective for audits of years beginning after June 30, 2010
- Supersedes 2010 Supplement – but carries forward most of what was in the 2010 Supplement – updates and clarifications

2011 OMB Circular A-133 Compliance Supplement ARRA Funding

ARRA Funding and Requirements

- American Recovery and Reinvestment Act
- Direct funding recipients of federal awards must file Section 1512 reports within 10 days after quarter-end
  - Total amount of funds received
  - Amount spent on projects and activities, with details on sub-awards
  - For each project and activity, include description, completion status and estimates of jobs created or retained
- All 1512 Reporting is made available to the public

2011 OMB Circular A-133 Compliance Supplement ARRA Funding

- Auditor Responsibilities:
  - Testing underlying data
  - Verifying key data elements were presented properly for completeness/accuracy of 1512 reporting
  - Determine whether a pass-through agency has a process for monitoring the accuracy of sub-recipient reporting
  - NOT REQUIRED to test the "number of jobs" data included in the report
- Report separately on the SEFA, even if part of a cluster or other program funding w/same CFDA number

2012 OMB Circular A-133 Compliance Supplement

- Timing of Release = Now; Effective for fiscal years beginning after 6/30/11
- Accessing the new Supplement:
  - www.whitehouse.gov/omb/grants/
- 5/24/12 - Process is taking longer than expected; draft Supplement has been posted but still subject to change:
  - http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/OMBCircularA133/Pages/FinalDraft2012OMBCircularA-133ComplianceSupplement.aspx
- Government Audit Quality Center provided program changes by the numbers:
  - 4 new programs, 10 deleted programs, 9 with new names, and over 40 with "more than minor" changes;
  - Updates/changes to clusters – Appendix 5 lists all changes
- Extra emphasis on reporting under FFATA (introduced in the 2011 Supplement) and on Subrecipient Monitoring

2012 OMB Circular A-133 Compliance Supplement

What is FFATA?

- Federal Funding Accountability and Transparency Act
- New federal award reporting process
  - Similar to the ARRA 1512 reporting
- Extends to all non-ARRA federal awards to prime awardees (direct recipients) reporting first tier sub-awards for new grants as of 10/1/2010 – over $25,000
  - If the NPO expends federal funds received from local government, but makes no subawards, FFATA does not apply
- Indicating in each program section as to whether reporting under FFATA applies

2012 OMB Circular A-133 Compliance Supplement

Clarifications for FFATA in 2012 Supplement

- How to understand if there is a new Federal Award Identifier Number
- Incorporates Q&A issues on the federal websites

Other Important Areas

- Clusters of programs
- Working to define / update the risk assessment related to Type A / B programs with ARRA funding

Schedule of Expenditures of Federal Awards (SEFA)

- Requires auditor to provide an opinion on whether the SEFA is presented fairly in all material respects in relation to the FS taken as a whole
- SEFA provides basis for major program determination
  - Vendor vs. subrecipient
- Based on PCIE study, a task force was set up to address audit quality issues related to the SEFA
  - Developed two practice aids on the AICPA GAQC website:
    1. Worksheet for identifying federal program information
    2. Auditee disclosure checklist for the SEFA

Single Audit/A133 Quality Initiatives

- Address federal study findings and recommendations relating to deficiencies in Single Audit/OMB A133 Audits
- Complete
  - SAS No. 117 (previously presented)
  - Schedule of Expenditures of Federal Awards
    - 2008 Audit and Accounting Guide (AAG) Government Auditing Standards and Circular A133 Audits
    - Practice Aids for Auditor and Auditee
  - Internal Control /Compliance Responsibilities in Single Audits
    - 2008 AAG Government Auditing Standards and Circular A133 Audits
    - Practice Aids for Auditor and Auditee
  - Sampling guidance
    - 2009 AAG Government Auditing Standards and Circular A133 Audits

Single Audit/A133 Quality Initiatives

- In Process
  - Single Audit reform
    - OMB issued advance notice in March/April asking for feedback
    - Consideration of reforming audit requirements
      - Currently need $500k of federal funding expended in the reporting year to require an audit
        - This could be increased to over $1 million; requirements could be reduced with the new guidance
        - Full single audit may not be required until $3 million of federal awards
    - Consideration of reforming cost principles
    - Consideration of reforming administrative requirements
  - Training
    - Improve training for sampling procedures / documentation
  - Peer Review
    - Use peer review checklists to enhance your firm's quality

Single Audit/A133 Quality Initiatives

- In Process
  - Reporting audit findings
    - Planning to update the Data Collection Form:
      - Auditors will be asked to provide more information
      - Potentially request upload unlocked PDF financial statements
  - Clarity Standards
    - SAS No. 122 – 126 effective for audits of periods ending on / after December 15, 2012 – no early implementation
    - Some may have no impact to A-133 practice
    - Some have paragraphs with specific considerations for A-133 / GAGAS audits
  - Overhaul of the AICPA A&A Guide for Non-Profit Entities in process

Additional Resources

- Not-for-Profit Audit and Accounting Guide
- Audit and Accounting Guide for GAS/OMB A-133
- Not-for-Profit Audit Risk Alert
- Audit Risk Alert for GAS/OMB A-133
- Yellow Book Practice Aid
  - PDF version free to AICPA members
  - Supplement practice aid for sale through AICPA
- AICPA Website:
  - www.aicpa.org
- Governmental Audit Quality Center Website:
  - www.gaqc.org

Questions?

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