

Central Ohio AGA
October 20, 2011
Columbus, Ohio

New GAO and OMB Guidance

Walter F. Kelly, CPA, CFE
Director of Clifton Gunderson
Public Sector Practice

The New Yellow Book

2011 Internet Version

Final & effective dates

- ▶ The 2011 Internet Version of GAGAS contains the INTENDED content for the final 2011 Revision of Government Auditing Standards. GAO plans to formally issue the 2011 Revision of Government Auditing Standards later this year after the AICPA has completed the clarity revisions.
- ▶ Financial audits, attest engagements **and performance audits** is for periods on or after 12/15/2012. Performance audits had been for audits beginning on or after 12/15/2011
- ▶ Early implementation is not permitted

Reasons for Changes

- ▶ Promote the modernization of auditing standards
- ▶ Streamline with standard setters
- ▶ Address issues identified from Yellow Book technical assistance questions
- ▶ Address issues GOA has observed through oversight of ARRA

Chapters 1 & 2

- Chapters 1 and 2 have been realigned – no major changes, just clarifications
 - ▶ Chapter 1 Clarifications:
 - Now includes the foundation and ethical principles of government auditing
 - Further defines the term “auditor” to clarify auditor vs. audit organization
 - Clarifies external vs. internal audit organizations
 - ▶ Chapter 2 Clarifications:
 - Contains the overall discussion on the use and application of GAGAS
 - Explains using GAGAS with other Standards
 - Clarifies citing compliance with GAGAS in Audit Report and provides examples for when you should modify your compliance statement

Chapter 3

- ▶ Revised Independence Standard and clarified CPE requirements
- ▶ Revisions to CPE Requirements:
 - Specified distinction between internal and external specialists
 - Clarified that for internal specialists, training in areas of specialization qualifies under the requirement for 24 hours of CPE.

Chapter 3

- ▶ Revisions to Independence Requirements:
 - Developed a conceptual framework approach to independence determinations
 - “Threats” and “Safeguards” approach
 - Identify threats to independence
 - Evaluate the significance of the threats identified
 - Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level

Independence Threats and Safeguards

- | | |
|---|---|
| <ul style="list-style-type: none"> ▶ Self-interest ▶ Self-review ▶ Bias ▶ Familiarity ▶ Undue influence ▶ Management Participation ▶ Structural threat | <ul style="list-style-type: none"> ▶ Professional or regulatory monitoring <ul style="list-style-type: none"> ◦ Sanctions imposed by professional organizations ◦ Legislation ▶ Work environment <ul style="list-style-type: none"> ◦ Documented policies and procedures ◦ Audit organization leadership and functions ◦ Disciplinary mechanisms |
|---|---|

Threats

Safeguards

Non-Audit Services

- ▶ The revised independence requirements prohibit certain non-audit services, while others are permitted provided there are appropriate safeguards in place
- ▶ Potentially permitted non-audit services that are specific concerns for Government Entities and Audit firms:
 - Financial statement preparation
 - Bookkeeping services
 - Valuation Services
 - IT services
- ▶ Consider the need for a “cleansing” audit

Independence Documentation Requirements

- Documentation is required for non performance of presumptively mandatory requirements
- Documentation of assessment of risks and safeguards is required when an independence threat is determined (regardless of whether independence is impaired)
- Peer reviewers will be looking for documentation of independence threat assessments

Differences between GAGAS and AICPA Independence Standards

- ▶ Areas in which GAGAS independence standards appear more restrictive than AICPA independence standards:
 - Documentation requirement – GAO says that when a threat requires significant analysis it must be documented, regardless of whether independence is impaired or not
 - GAGAS requires consideration of threats in future periods (i.e. effects of IT system)

Chapter 4

- ▶ The chapters on financial audit performance and reporting, formerly Chapters 4 and 5, have been combined into one chapter
- No new requirements were added – Terminology for financial audits has been updated to be consistent with other standards
- Clearly identifies the additional GAGAS requirements beyond the AICPA (same as previous additions)
- References AICPA standards and removes duplication between GAGAS and AICPA standards
- Highlights considerations for applying certain AICPA standards in a GAGAS financial audit
- Deleted requirements that were adequately covered by AICPA requirements

Chapter 5

- ▶ Clarified proper use of attest engagements
- ▶ No new requirements were added
- ▶ Language was modified to clearly identify the additional GAGAS requirements beyond the AICPA and to reference the AICPA standards when applicable
- ▶ Realigned the chapter to place emphasis on the three levels of attestation engagements in accordance with the AICPA, and introduced separate sections for type of attestation engagement

Chapter 6

- Fieldwork Standards for Performance Audits:
 - Deleted the requirement for audit organizations to develop policies to address requests by outside parties to obtain access to audit documentation since covered by Quality Control requirements of GAGAS
 - Retained the documentation requirement pertaining to termination of an audit (this requirement was deleted for financial audits and attestation engagements)

Chapter 7

- ▶ Reporting Standards for Performance Audits:
 - Modified the discussion of requirements for reporting deficiencies in internal control, on noncompliance with provisions of laws, regulations, contracts, and grant agreements, and on abuse, noting that professional judgment is required in making reporting determinations
 - The fraud reporting requirement is now limited to occurrences that are significant within the context of the audit
 - Added a requirement that auditors obtain and report views of responsible officials concerning the findings, conclusions, and recommendations included in the auditors' report, as well as planned corrective actions, has been added, consistent with the other GAGAS reporting standards

Appendix I

- ▶ Supplemental guidance for auditor and the audited entities to assist in the implementation of GAGAS – not additional requirements
- ▶ An initial overall 9 page guidance section
- ▶ Followed by 27 pages of guidance section by section

Appendix II & III

- ▶ II – GAGAS Conceptual Framework for Independence decision tree
- ▶ III – Comptroller General’s Advisory Committee on Governmental Auditing Standards and GAO Project Team members listed

HELP

- ▶ www.gao.gov/yellowbook – preferred contact to facilitate GAO awareness of issues/concerns for future or additional guidance
- ▶ Eric Holbrook @ HolbrookE@gao.gov
- ▶ (Michael Hrapsky) @ 202-512-9535

Single Audit and OMB Compliance Supplement

Single Audit Quality

- ▶ SART meetings
 - All agencies attend
 - AICPA participation limited to GAQC Executive Committee members and staff due to size of meeting room
- ▶ We are really all in this together to be relevant
- ▶ AICPA GAQC broadened membership
- ▶ GAQC web site has SEFA tools available to auditee's as well as auditors

<http://acipa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/Single%20Audit%20Practice%Aids.aspx#SEFA>

SAS 117

- ▶ SAS 117 on compliance auditing issued December 2009 supersedes SAS 74 on Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance and became effective for June 30, 2010 year-ends
- ▶ The AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, 2010 edition updated for effects of SAS 117 – 2011 edition was in process and may be issued by now

Sampling

- ▶ Sampling Chapter developed for the GAS and A-133 Audit Guide
- ▶ Includes discussion of statistical versus nonstatistical, attribute sampling, non-sampling procedures for individually important items
- ▶ DOCUMENTATION of sampling procedures
- ▶ Controls testing sample sizes
- ▶ Compliance testing sample sizes

Single Audit Quality – ARRA

- ▶ ARRA passed in 2009 with impact season 2010 and 2011 year-end audits
- ▶ Accountability and Transparency – President and Congress place high interest
- ▶ IG's recently issued checklists for use by federal agencies for A-133 QCR's and desk reviews of A-133 Audit reports
- ▶ Results on Recovery.gov
- ▶ Major program and risk definitions
- ▶ Limiting auditor access to client files – eligibility

Compliance Supplement

- ▶ The GAQC reviewed and provided comments regarding the supplement
- ▶ Entire A-133 Compliance Supplement is 1,544 pages in length
- ▶ Will be effective for audits of FY beginning after June 30, 2010 – issued before June 30, 2011 so applicable to prior year and current years
- ▶ www.whitehouse.gov/omb/circulars/a133/_compliance_supplement_2011

Compliance Supplement Parts 1–7

- ▶ Part 1 – Background, Purpose and Applicability
- ▶ Part 2 – Matrix of Compliance requirements
- ▶ Part 3 – Compliance requirements
- ▶ Part 4 – Agency Program requirements
- ▶ Part 5 – Clusters of Programs
- ▶ Part 6 – Internal Control
- ▶ Part 7 – Guidance for programs not included

Compliance Supplement – App 1–5

- ▶ App 1 – Federal programs excluded from A-102 Common Rule
- ▶ App 2 – Federal Agency Codification of Certain Government Wide Grant Requirements
- ▶ App 3 – Federal Agency Contacts for A-133 audits
- ▶ App 4 – Internal Reference tables
- ▶ App 5 – Listing of Changes to prior compliance supplement

Compliance Supplement App 6–9

- ▶ App 6 – Disaster Waivers and Special Provisions Affecting Single Audits
- ▶ App 7– Other OMB Circular A-133 Advisories
- ▶ App 8 – SSAE 16 Examinations of EBT service organizations
- ▶ App 9 – Compliance Supplement Core Team

Now for the 2011 Compliance Supplement changes

- ▶ 19 new programs (some ARRA specific), 2 deleted programs and 5 new programs added to clusters
- ▶ List of ARRA programs (covered and not covered) that may or not be subject to SA.
- ▶ App 3 updated as a result of SART process

Other Appendix V noted changes

- ▶ Global Requirements affecting Parts 3–5
- ▶ Transition from SF-269 & SF 272 to SF425
- ▶ New section added to assist auditor to determine whether reporting under the Transparency act
- ▶ Non-ARRA: Granting of extension suspended

Compliance Supplement (con't)

- ▶ Part 3 re updates re ARRA requirements
 - I – Procurement, suspension and debarment to add ARRA Buy American Bonds
 - L – Reporting re BEST AVAILABLE DATA clarification
 - L&M (monitoring) – added requirements related to subaward reporting under the Transparency Act and, as appropriate, compare them with ARRA requirements
 - M – sub-recipient monitoring requirement for use of Central Contractor Registry and timing clarification

Compliance Supplement (Con't)

- ▶ Part 3
 - M – added the requirement that non-ARRA first-tier subrecipients must obtain DUNS numbers as part of eligibility for a subaward and to clarify that, for ARRA funds, a subrecipient is not required to be registered in CCR at the time of subaward
 - Removed statements redundant in each section of Part 3 related to dual-purpose testing because this is covered in the AICPA Audit Guide – Government Auditing Standards and Circular A-133 Audits
 - Parts 4-7

Final thoughts

- ▶ Federal Audit Clearing House
- ▶ A February 28th memo to OMB required a reporting back by mid-August re “recapture plans” – new group being formed with ½ looking at A-87 and ½ to look at A-133
- ▶ Status?
- ▶ Did I say transparency yet, information ease of access and Washington political gridlock enough times and accountability for a lot of anger out there
- ▶ Thanks for your attention and I know when lunch is being served.