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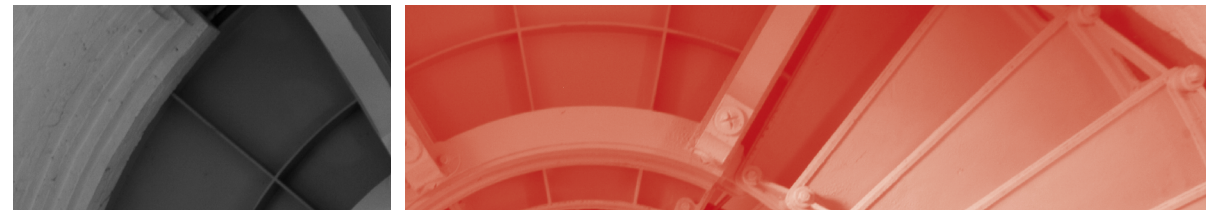
Government auditing standards and Circular A-133 developments - 2013; Audit risk alerts

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AUDIT RISK ALERT



Government Auditing Standards and Circular A-133 Developments

Government Auditing Standards and Circular A-133 Developments

2013



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STRENGTHENING AUDIT INTEGRITY
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AUDIT RISK ALERT

*Government
Auditing
Standards and
Circular A-133
Developments*

2013

12849-359



STRENGTHENING AUDIT INTEGRITY
SAFEGUARDING FINANCIAL REPORTING

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Notice to Readers

This Audit Risk Alert (alert) replaces Government Auditing Standards and *Circular A-133 Developments—2012*.

This alert is intended to provide auditors who perform audits under *Government Auditing Standards* or Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, with an overview of recent industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform. This alert also can be used by an entity's internal management to address areas of audit concern.

This publication is an *other auditing publication*, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an *other auditing publication*, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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The AICPA gratefully acknowledges those members of the Auditing Standards Board, the AICPA Technical Issues Committee, and the Governmental Audit

Quality Center Executive Committee, who helped identify the interest areas for inclusion in this alert.

Feedback

The Audit Risk Alert Government Auditing Standards *and Circular A-133 Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert also would be appreciated. You may e-mail these comments to A&APublications@aicpa.org.

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How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform audits conducted in accordance with *Government Auditing Standards* (also known as the Yellow Book) and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (Circular A-133). The alert can also be used by an entity's internal management to address areas of audit concern. This alert provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. The alert is an important tool to help you identify the significant risks that may affect the audit and delivers information about emerging practice issues and current auditing and regulatory developments as they relate to audits performed under *Government Auditing Standards* and OMB Circular A-133. For developing issues that may have a significant impact on audits performed in accordance with *Government Auditing Standards* and Circular A-133 in the near future, the "On the Horizon" section provides information on these topics, including guidance that either has been issued but is not yet effective or is in a development stage.

.02 This alert is intended to be used in conjunction with the Audit Risk Alert *General Accounting and Auditing Developments—2012/13* (product nos. ARAGEN12P, ARAGEN12E, or WGE-XX), which explains important issues that affect all entities in all industries in the current economic climate. You should refer to the full text of accounting and auditing pronouncements, as well as the full text of any rules or publications, that are discussed in this alert.

.03 It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain audit evidence to draw reasonable conclusions on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise
 - tests of controls, when required by generally accepted auditing standards (GAAS), by regulation (such as OMB Circular A-133), or when the auditor has chosen to do so
 - substantive procedures that include tests of details and substantive analytical procedures

.04 The auditor should develop an audit plan that includes, among other things, the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*). AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the industry, regulatory, and other external factors, including the applicable financial reporting framework, relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

.05 In an audit performed under *Government Auditing Standards* and Circular A-133, risk assessment procedures should be performed for all aspects of the audit. They are performed as part of the audit of the financial statements and the additional reporting required under *Government Auditing Standards*. In addition, as part of the compliance audit under Circular A-133, for each of the major programs and direct and material compliance requirements selected for testing, the auditor should perform risk assessment procedures to obtain a sufficient understanding of the direct and material compliance requirements and the entity's internal control over compliance with those compliance requirements. This understanding of the major program, the direct and material compliance requirements, and the entity's internal control over compliance, establishes a frame of reference within which the auditor plans the compliance audit and exercises professional judgment about assessing risks of material noncompliance and responding to those risks throughout the compliance audit.

Economic Update

.06 *Budget sequestration* in the United States is a process of automatic spending reductions as a means to limit the size of the federal budget. The difference between the budget cap set by lawmakers and the amount actually appropriated is considered sequestered and is not available to be spent. The amount exceeding the budget limit is held back by the Treasury and not transferred to the agencies specified in the appropriation bills. Generally, the same percentage of budget cuts is imposed on all spending. However, Congress has the option to—and has—exempted certain programs from the sequestration process. Certain other programs may have special rules applied to them as part of the process.

.07 Although cuts are intended to be split evenly between the defense and nondefense categories, some federal programs are exempt, such as Social Security, Medicaid, federal pay (including military pay and pensions), and veterans' benefits. The *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* states that the sequester is expected to reduce 2013 economic growth by .05–.07 percentage points.

.08 The threat of sequestration has existed for several years. However, because of extensions enacted by Congress, sequestration did not become a reality until March 2013. The severity of the effect on agencies and recipients of federal funding is not yet known. However, because the sequestration order for fiscal year 2013 was not issued until March 1, 2013, the budget cuts will be spread over 7 months instead of 12 months, thereby intensifying the effect on this fiscal year.

Legislative and Regulatory Developments

2013 OMB Circular A-133 Compliance Supplement Revisions

.09 The compliance supplement, issued annually by the OMB, is one of the most important pieces of guidance used by an auditor in a single audit. The compliance supplement identifies the compliance requirements expected to be considered as part of the compliance audit of major federal programs required by Circular A-133. For the programs it includes, the compliance supplement provides a source of information for auditors to understand the federal program's objectives, procedures, and compliance requirements relevant

to the audit, as well as audit objectives and suggested audit procedures for determining compliance with these requirements. Part 7, "Guidance for Auditing Programs Not Included in This Compliance Supplement," provides guidance on how to identify the applicable compliance requirements for those major federal programs not included in the compliance supplement and for program-specific audits when a program-specific audit guide is not available.

.10 Each year, agency program information and compliance requirements are updated, as necessary, to keep the compliance supplement current. Normal types of changes are anticipated in the 2013 compliance supplement (for example, new, revised, and deleted programs). In addition, certain American Recovery and Reinvestment Act of 2009 programs are expected to be deleted due to completion, or near completion, of those programs. Other revisions of note expected in the 2013 compliance supplement are as follows:

- Part 2, "Matrix of Compliance Requirements," is modified to remove the applicability of certain compliance requirements in a number of programs. Part 4, "Agency Program Requirements," of the supplement is also updated for these changes.
- Part 3, "Compliance Requirements," is modified to clarify compliance requirements and testing for compliance and to take into account the fact that some programs or awards may have authorized recipients to use the \$150,000 simplified acquisition threshold.
- Part 5, "Clusters of Programs," is revised to reflect changes relating to existing clusters, including updating compliance requirements specific to the student financial assistance cluster.

.11 A couple of areas in the compliance supplement deserve special mention. The first is that there was an expectation that the testing around the Federal Funding Accountability and Transparency Act (FFATA) would be removed from the 2013 compliance supplement. The latest information is that the guidance related to FFATA has been retained, but the FFATA audit procedures in the reporting type of compliance requirements in Part 3 will be clarified to address previous areas of confusion. The second area relates to the special tests and provisions section compliance requirements that were added to the 2012 compliance supplement for the U.S. Department of Health and Human Services (HHS) Health Resources and Service Administration 340B Drug Pricing Program. This program consists of a small number of Catalog of Federal Domestic Assistance (CFDA) numbers. HHS has indicated that the compliance requirements related to this program are being removed from the compliance supplement after it was determined that the funding did not meet the criteria as federal expenditures. Grantees will not be penalized if the special tests and provisions for the 340B program were not performed during their 2012 single audit. In addition, auditors that have not yet started their 2012 single audits or have 2012 single audits currently underway are not required to perform the tests for the 340B Drug Pricing Program outlined in the 2012 compliance supplement.

.12 At the date of this writing, the 2013 compliance supplement had not been issued. However, when issued, it will be available on the OMB's website at www.whitehouse.gov/omb/circulars_default/. The 2013 compliance supplement applies to audits of fiscal years beginning after June 30, 2012.

Department of Housing and Urban Development—Consolidated Audit Guide Update

.13 The *Consolidated Audit Guide for Audits of HUD Programs* (HUD guide) provides guidance for program-specific audits of entities that are subject to the U.S. Department of Housing and Urban Development's (HUD's) financial reporting standards. Because not-for-profit entities and governmental organizations participating in HUD housing programs are subject to the Single Audit Act of 1984 and Circular A-133, the HUD guide is applicable to for-profit entities that expend HUD funds or participate in certain HUD programs.

.14 The HUD guide is in the process of being updated, with each chapter being released upon completion. Since May 2012, revisions were made to four chapters. Those chapters and date of the update include the following:

- Chapter 1, "General Audit Guidance," January 2013
- Chapter 2, "Reporting Requirements and Sample Reports," January 2013 (chapter issued without illustrative reports) and March 2013 (illustrative reports released)
- Chapter 6, "Ginnie Mae Issuers of Mortgage-Backed Securities Audit Guidance," May 2012 and April 2013
- Chapter 7, "FHA-Approved Lenders Audit Guidance," December 2012

Note that some of the changes are interrelated, especially the changes to chapters 1, 2, and 7.

.15 Chapter 1 of the HUD guide was revised as a result of a change to chapter 2; that is, the elimination of separate compliance reporting on nonmajor programs for Federal Housing Administration- (FHA-) approved lenders. This change required a revision to the chart in chapter 1 that indicates values to be used in making major program determinations. The revision changes the threshold for FHA-approved lenders from \$2 million to no dollar amount, with the provision that for audits of lenders having combined originations and a servicing portfolio of less than \$2 million, the opinion on compliance need only cover certain chapter 7 compliance requirements. The revisions are effective for audits of entities with fiscal years ending on or after March 31, 2013.

.16 Chapter 2 of the HUD guide was updated for, among other things, the *Government Auditing Standards*, December 2011 Revision (2011 revision) and AICPA clarified auditing standards. The transmittal letter of the chapter 2 update provides a list of the significant changes to that chapter, which include

- new background information on the reporting standards and requirements applicable to an audit performed under the guide.
- revised report issuance and distribution requirements.
- revised instructions relating to the required reporting package, including required auditor's reports and auditee prepared documents that are to be included in the reporting package.
- the suggested auditor's reports on internal control and compliance were restructured to make the format consistent with the AICPA's Audit Guide *Government Auditing Standards and Circular A-133 Audits*. Suggested reports are

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Independent Auditor's Report on Compliance for Each Major HUD Program and Report on Internal Control Over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs*
 - separate reporting on compliance with respect to nonmajor HUD programs has been eliminated.
 - separate reporting on compliance with specific requirements applicable to fair housing and nondiscrimination has been eliminated.¹

.17 The revisions to chapter 2 are effective for audits of entities with fiscal years ending on or after March 31, 2013. If early application is elected, this guidance may be used for audits of entities with fiscal years ending on or after December 31, 2012.

.18 Illustrative reporting examples were issued in March 2013 as a separate update to chapter 2. The AICPA Government Audit Quality Center (GAQC) website has a link to the illustrative HUD reports, updated for both AICPA clarified auditing standards and the 2011 revision of *Government Auditing Standards*.

.19 Chapter 6 of the HUD guide was reissued in its entirety to reflect changes in requirements and reporting formats related to audits of Government National Mortgage Association (Ginnie Mae) issuers of mortgage backed securities. Significant changes to that chapter include the following:

- Updates to net worth requirements
- Outlines new liquidity requirements and capital requirements for all issuers
- Provides a list of unacceptable assets for the computation of adjusted net worth
- Provides updated reporting formats and an illustrative report

.20 Although this chapter was formally issued in May 2012, some requirements and guidance found in chapter 6 were effective on October 1, 2011. The chapter in its entirety was effective upon issuance. More recently, a transmittal letter issued in April 2013 updated chapter 6 to reflect the requirement for the electronic submission of audit reports (to conform to the updated *Ginnie Mae Mortgage-Backed Securities Guide*). This change is effective upon issuance.

.21 The updates to chapter 7 merged the content of former chapters 7 and 8, thus eliminating chapter 8 from the HUD guide. Updated chapter 7 applies to all approved supervised and nonsupervised lenders. A number of technical changes were made to wording, and additional information was added related

¹ The transmittal letter content reminds auditors that auditors continue to be required to report instances of noncompliance that could have a material effect on the audit.

to certain reporting and submission requirements. In addition, compliance requirements and suggested audit procedures were restructured. The updated chapter 7 was effective upon issuance.

.22 The HUD audit guide is available at www.hudoig.gov/reports/consolidated.php.

Audit Developments

Clarified Auditing Standards in an Audit Under *Government Auditing Standards*

.23 At this point, auditors likely have had significant exposure to the clarified auditing standards that became effective for periods ending on or after December 15, 2012. In an audit in accordance with *Government Auditing Standards*, there are additional considerations related to the clarified standards.

.24 The 2011 revision of *Government Auditing Standards* incorporates by reference the AICPA Statements on Auditing Standards (SASs). Therefore, in an audit in accordance with *Government Auditing Standards*, the auditor should comply with GAAS, the requirements found in chapters 1–3 of *Government Auditing Standards*, and the additional requirements related to financial audits contained in chapter 4, "Standards for Financial Audits," of *Government Auditing Standards*. This relationship between GAAS and *Government Auditing Standards*, as revised in the 2011 revision of *Government Auditing Standards*, will affect an audit performed under *Government Auditing Standards*.

.25 Although the Clarity Project was not intended to create additional requirements, some revisions have resulted in changes that may require auditors to make adjustments in their audit methodology. A discussion of certain changes that will likely affect current practice in an audit under *Government Auditing Standards* and the compliance audit under Circular A-133 follows. The AU-C sections (AICPA, *Professional Standards*) included in the discussion are the following:

- AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
- AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
- AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*

AU-C Section 250

.26 AU-C section 250 sets forth the auditor's responsibilities regarding the consideration of compliance with laws and regulations in an audit of financial statements. It is important to note that AU-C section 250 does not apply to

the Circular A-133 compliance audit portion of a single audit.² The guidance in AU-C section 250 distinguishes the auditor's responsibilities for two distinct categories of laws and regulations in an audit of financial statements:

1. Those that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.
2. Those that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business or the entity's ability to continue its business, or necessary for the entity to avoid material penalties, and therefore may have a material effect on the financial statements.

.27 There are different requirements for these two categories of laws and regulations. For the first category, the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations. For the second category, the auditor's responsibility is limited to performing the audit procedures specified in paragraph .14 of AU-C section 250 that may identify noncompliance with those laws and regulations that may have a material effect on the financial statements. The procedures found in paragraph .14 of AU-C section 250 are

- a. inquiring of management and, when appropriate, those charged with governance about whether the entity is in compliance with such laws and regulations, and
- b. inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

.28 AU-C section 250 places more emphasis on identifying noncompliance with laws and regulations, including a requirement for the auditor to consider compliance with laws and regulations as part of understanding the entity and its environment under AU-C section 315. The auditor is required by AU-C section 250 to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected noncompliance with laws and regulations to the auditor's attention.

AU-C Section 600

.29 Group audits involve the audit of financial statements that include the financial information of more than one component (group financial statements). AU-C section 600 addresses special considerations that apply to group audits, in particular those that involve component auditors. The applicability of AU-C section 600 depends on whether more than one component is identified, regardless of whether there is another auditor involved. The guidance around group audits has been significantly expanded from the scope of the guidance previously found in AU section 543, *Part of Audit Performed by Other Independent Auditors* (AICPA, *Professional Standards*), and has also been updated for newer guidance, such as the risk assessment standards. AU-C section 600 is,

² AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), provides guidance related to compliance with laws and regulations in the compliance audit.

in part, intended to address the audit risk that results from the aggregation of component financial information (referred to here as aggregation risk). It also establishes requirements for when it is appropriate to make reference to a component auditor in the auditor's report on the financial statements.³

.30 Although AU-C section 600 may be applicable to an audit of financial statements performed under *Government Auditing Standards*, the discussion here is intended to provide guidance to auditors in adapting and applying the provisions of AU-C section 600 to a compliance audit, such as one performed under Circular A-133.

.31 In accordance with AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), the auditor should use professional judgment to adapt and apply the provisions in the AU-C sections to meet the objectives of a compliance audit. Therefore, it will be necessary for the auditor to use professional judgment in adapting and applying the provisions of AU-C section 600 to a Circular A-133 compliance audit because the nature and objectives of a compliance audit are different than the nature and objectives of a financial statement audit.

.32 As noted in the preceding discussion, the guidance in AU-C section 600 addresses aggregation risk. The concept of aggregation risk in AU-C section 600 is not directly applicable to Circular A-133 compliance audits because each major program is being opined on separately. Unlike a financial statement audit, there is no entity-wide opinion on compliance in a Circular A-133 compliance audit. Additionally, even when a major program is administered by multiple organizational units, locations, or branches within an entity, because the focus of the Circular A-133 compliance audit is attribute based (there is either compliance or noncompliance), the concepts of aggregation risk and component materiality as contemplated in AU-C section 600 would not be relevant.⁴ Therefore, as a result of the unique nature of a Circular A-133 compliance audit, the concept of a component in AU-C section 600 generally should only be applied when other auditors have been engaged to perform a portion of a Circular A-133 compliance audit. In those cases, the auditor should follow the guidance in AU-C section 600 as it relates to other auditors (that is, component auditors), including considerations of whether to make reference to the other auditors in the auditor's report on compliance and on internal control over compliance.

.33 Governmental entities and entities that receive governmental assistance may engage independent accounting firms on a joint venture or subcontract basis. This sometimes occurs due to legal or contractual requirements to make positive efforts to use small business, minority-owned firms, and women's business enterprises. In these circumstances, it is not appropriate to make reference to the other auditors. In the case of a joint audit, each of the auditors participating in the audit will both sign the audit reports. The guidance in AU-C section 600 is appropriate only when each auditor or firm has complied with GAAS and *Government Auditing Standards* and is in a position that would justify being the only signatory of the report. In the case of a subcontract relationship, the subcontracting auditor often does not issue a separate

³ See the Audit and Accounting Guide *State and Local Governments* for additional information. The "Resource Central" section of this alert provides information on purchasing this guide.

⁴ Instead, the auditor may have additional sampling considerations in such situations. See the guidance in chapter 11, "Audit Sampling Considerations of Circular A-133 Compliance Audits," of the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for guidance on the effect of such a structure on the sampling considerations for the major program.

report. Therefore, it would also not be appropriate to make reference to the subcontracting auditor in this situation.

AU-C Section 700

.34 AU-C section 700 provides guidance related to forming an opinion and reporting on financial statements. This section discusses guidance especially relevant to the reports required to be issued in a single audit and, rather than focusing on the specific guidance in AU-C section 700, it focuses on the changes to the reports issued in a single audit. Many of these changes are based on the guidance found in AU-C section 700. The GAQC website and AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* provide illustrative report examples of the reports required in a single audit (hereafter referred to as AICPA illustrative reports). Although these reports are illustrative only, a number of federal agencies look to these reports for guidance regarding what should be included in a report. Therefore, it is recommended the format of these reports be used.

Report on the Financial Statements

.35 There are a number of revisions related to reporting on financial statements in AU-C section 700. Some of the revisions update report wording for new requirements in both the clarified auditing standards and *Government Auditing Standards*. Other revisions to the guidance change the appearance of the auditor's report on the financial statements.

.36 Under AU-C section 700, the auditor's report will contain a number of sections, as determined by what is being reported on. The standard does provide options regarding how and where to report certain items. A number of subheadings have been added to the auditor's report on the financial statements to clearly distinguish each section of the report. Whereas some of the subheadings are required for all reports, others depend on the nature of what is being reported on. Based on the guidance, the subheadings added to the AICPA illustrative reports are as follows:

- "Management's Responsibility" (this is a new section that describes management's responsibility for the preparation and fair presentation of the financial statements)
- "Auditor's Responsibility" (as set forth in AU-C section 700)
- "Other Matters" (this section is needed when reporting on items such as required supplementary information or other information)
- "Other Reporting Required by *Government Auditing Standards*" (this section contains information related to the reporting required under *Government Auditing Standards*)

Auditor's Report Required Under Government Auditing Standards

.37 The report on internal control over financial reporting and on compliance and other matters required under *Government Auditing Standards* contains wording changes for both the clarified auditing standards and the revision to *Government Auditing Standards*. In addition, the title "Independent Auditor's Report" was added to these AICPA illustrative reports. Another change is that there is no longer a reference to a management letter in the report; *Government Auditing Standards* no longer requires that reference. Finally, the *restricted use alert* was replaced by a *purpose alert*, as required by

AU-C section 905. See the later section titled "AU-C Section 905" for more information on the purpose alert.

.38 Note that the AICPA illustrative reports for the report required under *Government Auditing Standards* assume the reporting is for a governmental entity. Footnotes provide the revised wording needed for a not-for-profit entity.

Reporting Required Under Circular A-133

.39 AU-C section 700 requirements also carry over to the reporting required under Circular A-133. In addition to wording changes for the clarified auditing standards and the revision of *Government Auditing Standards*, the following major headings are used in the AICPA illustrative reports to indicate that the reporting includes several distinct reports:

- "Report on Compliance for Each Major Program" (opinion-level assurance)
- "Report on Internal Control over Compliance" (by-product report on internal control over compliance)
- "Report on Schedule of Expenditures of Federal Awards" (if such reporting is included in this report)⁵

.40 Although subheads are used within the "Report on Compliance for Each Major Program," subheads are not used within the "Report on Internal Control Over Compliance" (a by-product report). In addition, the use of subheads is affected by opinion modifications on one or more major federal program. Other changes to the report include the following:

- Replaced the *restricted use alert* with the *purpose alert* (only found in the reporting on internal control over compliance)
- Added example information regarding how an auditor might include a table within a report to more clearly articulate findings

AU-C Section 905

.41 AU-C section 905 addresses the auditor's responsibility, when required or the auditor decides, to include in the reporting or other written communication issued by the auditor language that restricts the use of the auditor's written communication. This communication is referred to as an *alert*. For example, AU-C section 905 requires an alert when the written communication is based on matters identified by the auditor during the course of the audit engagement when the identification of such matters is not the primary objective of the audit engagement (commonly called a *by-product report*). Examples of this are the report on internal control over financial reporting and compliance required by *Government Auditing Standards* and the Circular A-133 reporting on compliance and internal control over compliance. However, AU-C section 905 states that the alert language, which indicates that the communication is solely for the information and use of the specified parties, is not to be used when the engagement is also performed in accordance with *Government Auditing Standards*, and the written communication pursuant to that engagement is issued in accordance with AU-C section 265, *Communicating Internal Control*

⁵ Note that the AICPA illustrative report examples now illustrate in the body of the report how to report on the schedule of expenditures of federal awards within the Circular A-133 report. This does not imply best practice.

Related Matters Identified in an Audit; AU-C section 806, Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements; or AU-C section 935 (AICPA, Professional Standards).

.42 Instead, alert language that describes the purpose of the communication and that states that the communication is not intended to be and should not be used for any other purpose (referred to here as a *purpose alert*) should be used instead of the general alert language that restricts the use of the auditor's written communication when reporting on internal control over financial reporting and on compliance and other matters.

.43 As it relates to an audit performed in accordance with Circular A-133, the purpose alert described in the preceding paragraph should be included in the internal control over compliance section of the report. If the auditor issues separate reports on the entity's compliance and its internal control over compliance, this alert should be included in the report on internal control over compliance (a by-product report) but would not be included in the report on compliance.

.44 In March 2013, Technical Questions and Answers (TIS) section 9110.22, "Use of Restricted Alert Language When Financial Statements Are Audited in Accordance with GAAS and *Government Auditing Standards*" (AICPA, *Technical Practice Aids*), was issued and clarifies when an auditor may use the general alert language that restricts the use of the auditor's written communication. TIS section 9110.22 states that an auditor may include a restricted alert paragraph using the language required by paragraph .07 in AU-C section 905 as long as the compliance report is not required to be issued in accordance with *Government Auditing Standards* and the report does not refer to *Government Auditing Standards*. For example, a not-for-profit entity is required to have a financial statement audit conducted in accordance with GAAS and *Government Auditing Standards* because the entity receives federal funds. In addition to the reports required by *Government Auditing Standards*, the auditor of the not-for-profit entity is requested to provide a compliance report in accordance with AU-C section 806 to the entity's financial institution about whether the auditor identified any instances of noncompliance with the covenants of a loan agreement. Because this compliance report is not required to be issued in accordance with *Government Auditing Standards* and the report would be issued only in accordance with GAAS and would not refer to *Government Auditing Standards*, the auditor may use the restricted alert language required by paragraph .07 of AU-C section 905.

.45 Also issued was TIS section 9110.23, "Modification of Compliance Report When Financial Statements Are Audited in Accordance With GAAS" (AICPA, *Technical Practice Aids*), which states that, based on the facts found in TIS section 9110.22, the auditor does not need to modify the compliance report language to indicate that the financial statement audit was also conducted in accordance with *Government Auditing Standards* and could refer only to the audit being conducted in accordance with GAAS.

Resources for the Clarity Standards

.46 A wealth of information about the clarity standards is available at www.aicpa.org/SASClarity. Also, two publications specifically discuss the clarity standards:

- The AICPA Audit Risk Alert *Understanding the Clarified Auditing Standards—2012* (product nos. ARACLA12P, ARACLA12E, or ARACLA12O) identifies the substantive and clarifying changes in requirements from the Clarity Project and includes a mapping schedule tracking the extant standards to the clarified standards.
- Additionally, the AICPA Audit Risk Alert *Understanding the Responsibilities of Auditors for Audits of Group Financial Statements—2013* (product nos. ARAGR13P, ARAGR13E, or ARAGRPO) provides additional guidance for implementing AU-C section 600.

These publications are available at www.cpa2biz.com. Additionally, see the following section, "Resource Central," for ways to obtain the codified clarity standards.

.47 The Financial Resource Center—Audit & Attest Services section of the AICPA website also offers numerous resources to assist auditors in understanding and implementing the clarity standards, such as the following:

- Section dedicated to the Clarity Project
- Standards Tracker
- Summary of Differences Between Clarified SASs and Existing SASs
- Summary of Clarified Auditing Reporting Standards

Government Auditing Standards, 2011 Revision

.48 The Government Accountability Office (GAO) issued the 2011 revision of *Government Auditing Standards* in December 2011. Upon its effective date, the 2011 revision superseded *Government Auditing Standards*, July 2007 Revision. The effective date of the 2011 revision for financial audits and attestation engagements was for periods ending on or after December 15, 2012, which was the same effective date as the clarified auditing standards issued by the AICPA. (See the previous section for information on clarified auditing standards.) The 2011 revision was effective for performance audits beginning on or after December 15, 2011. Note that the information in this section discusses changes in *Government Auditing Standards* primarily as it relates to financial audits.

.49 The purpose of the 2011 revision of *Government Auditing Standards* is to promote the modernization of auditing standards, to streamline *Government Auditing Standards* to other standard setters by aligning *Government Auditing Standards* with other standard setters where possible, and to address issues that the GAO has observed. To that end, clarity project conventions were considered in revising the standards and certain language was revised to harmonize with AICPA standards. The discussion that follows highlights some of the revisions to the standards; readers are encouraged to read the full text for complete information. Visit the GAO website for full information at www.gao.gov/yellowbook.

.50 As stated earlier, the 2011 revision of *Government Auditing Standards* incorporates by reference AICPA Statements on Auditing Standards (SASs). Therefore, auditors performing financial statement audits in accordance with *Government Auditing Standards* should comply with GAAS, the requirements and guidance found in chapters 1–3 of *Government Auditing Standards*, and the additional requirements for financial audits found in chapter 4 of *Government*

Auditing Standards. As a result, the 2011 revision of *Government Auditing Standards* does not include content describing AICPA auditing standards as they are incorporated into the 2011 revision by reference.

.51 The 2011 revision updates *Government Auditing Standards* in various areas and revises the content to emphasize specific considerations applicable to the government environment. As it applies to financial audits, major changes in the revision were made to

- consolidate and reorganize the foundation and ethical principles for government audits and the standards for use and application of *Government Auditing Standards*;
- revised the guidance related to independence, including the addition of a conceptual framework approach for independence;
- clarify the requirements for continuing professional education (CPE), especially as they relate to internal specialists;
- update the financial auditing standards to reflect recent updates to the auditing standards issued by the AICPA and to more clearly identify the *Government Auditing Standards* requirements and guidance that supplement AICPA requirements for financial audits;
- delete the redundancies with AICPA standards;
- consolidate the financial auditing standards into a single chapter; and
- clarify language throughout the document.

.52 Although the presentation of the additional requirements found in *Government Auditing Standards* changed significantly, it is important to note that the actual requirements did not change significantly. The most significant changes appear in the general standards. The following paragraphs provide information on these revisions.

Independence

.53 The 2011 revision of *Government Auditing Standards* made significant revisions around auditor independence. The guidance was revised from a more rules based approach to a principles based approach that will require the auditor to be more thoughtful in applying the principles found in *Government Auditing Standards* regarding independence. This change in the approach to independence under *Government Auditing Standards* may change decisions regarding independence that have been made in past years. Of particular importance to auditors is the addition of a conceptual framework approach to independence, a focus on nonaudit services, and specific guidance and requirements on audit documentation. These topics are among those discussed in the following paragraphs.

.54 Overall, this section provides a summary of *Government Auditing Standards* requirements and guidance related to independence, as found in chapter 3, "General Standards," of the 2011 revision. That chapter states that in all matters relating to audit work, the audit organization and the individual auditor must be independent in mind and in appearance. Auditors should be independent from an audited entity during

- any period of time that falls within the period covered by the financial statements or subject matter of the audit.

- the period of the professional engagement. That period begins when the auditor either signs an initial engagement letter or other agreement to perform an audit or begins to perform an audit, whichever is earlier. The period lasts for the entire duration of the professional engagement (which, for recurring audits, could cover many periods). The period ends with the termination of the professional relationship or the issuance of the report, whichever is later.

.55 The 2011 revision establishes a conceptual framework similar to the AICPA Code of Professional Conduct that auditors use to identify, evaluate, and apply safeguards to address threats to independence. It can be applied to many variations in circumstances and allows auditors to address threats to independence that result from activities that are not specifically prohibited by *Government Auditing Standards*. The conceptual framework should be applied by the auditor at the audit organization, audit, and individual auditor levels to

- identify threats to independence.
- evaluate the significance of the threats identified, both individually and in the aggregate.
- apply safeguards as necessary to eliminate threats or reduce them to an acceptable level.

.56 If safeguards are not available to eliminate an unacceptable threat or reduce it to an acceptable level, independence is considered to be impaired and the auditor may not express an opinion on the financial statements or other subject matter of the audit.

Threats and Safeguards

.57 Threats to independence are circumstances that could impair independence. This can occur due to a number of factors. Whether independence is impaired depends on the nature of the threat, its significance, and the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. The broad categories of threats to independence as found in paragraph 3.14 of the 2011 revision are as follows:

- Self-interest threat
- Self-review threat
- Bias threat
- Familiarity threat
- Undue influence threat
- Management participation threat
- Structural threat

Appendix I, "Supplemental Guidance," of the 2011 revision includes some common examples of threats to independence.

.58 When threats are identified, auditors should determine whether those threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level through the application of safeguards. Auditors should evaluate threats both individually and in the aggregate. A threat to independence is not acceptable if it either (a) compromises the auditor's professional judgment, or (b) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to

conclude that the integrity, objectivity, or professional skepticism of the audit organization, or a member of the audit team, had been compromised.

.59 When an auditor identifies threats to independence and, based on an evaluation of those threats, determines that they are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The auditor should exercise professional judgment in making that determination and should take into account whether both independence of mind and independence in appearance are maintained. The auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat.

.60 *Safeguards* are controls designed to eliminate or reduce to an acceptable level threats to independence and address the specific facts and circumstances under which threats to independence exist. In some cases, multiple safeguards may be necessary to address a threat. Paragraphs 3.17–.19 of the 2011 revision provide examples of safeguards that may be effective under certain circumstances. Although the list does not provide safeguards for all circumstances, it does provide a starting point for auditors who have identified threats to independence and are considering what safeguards could eliminate the threats or reduce them to an acceptable level.

.61 In cases in which threats to independence are not at an acceptable level, thereby requiring the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.

Nonaudit Services

.62 A variety of situations would impair auditor independence. The 2011 revision notes that auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise to entities for which they perform audits. The following discussion focuses on those nonaudit services provided by auditors to their clients.

.63 When an audit organization⁶ provides nonaudit services to an entity it audits, it should assess the effect that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with *Government Auditing Standards*. Threats related to nonaudit services often include threats related to management participation and self-review. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor level to identify, evaluate, and apply safeguards as necessary. The section in *Government Auditing Standards* related to nonaudit services provides requirements and guidance on evaluating threats to independence relating to nonaudit services.

.64 Before an agreement is made for the auditor to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in the

⁶ For purposes of considering auditor independence under the 2011 revision of *Government Auditing Standards*, "audit organization" includes multiple offices or units of an audit organization, or related or affiliated entities under common control. This is a change from the 2007 revision of *Government Auditing Standards*.

aggregate with other nonaudit services provided. As noted in the preceding paragraph, the conceptual framework should be used in assessing independence related to the auditor providing nonaudit services. Although there are other considerations as found in the conceptual framework, an important factor in this determination is consideration of management's ability to effectively oversee the nonaudit service to be performed. The auditor should determine if the audited entity has designated an individual who possesses suitable skill, knowledge, or experience (SKE) and that the individual understands the services to be performed sufficiently to oversee them. In addition, the 2011 revision of *Government Auditing Standards* now requires the auditor to document the consideration of management's ability to effectively oversee nonaudit services to be performed. Note that the individual is not required to possess the expertise to perform or reperform the services. If it is determined that this individual, or management, does not possess the SKE to oversee the performance of the nonaudit service, or that management is unwilling to assume responsibility for such services, an auditor's provision of the nonaudit service would impair independence.

.65 Paragraphs 3.49–.58 of *Government Auditing Standards* discuss broad areas of nonaudit services that are frequently requested of auditors. Some aspects of these services will impair an auditor's ability to perform audits for the entities for which these services are provided. However, auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.49–.58 of the 2011 revision without impairing independence if

- the nonaudit services are not expressly prohibited;
- the auditor has determined that the requirements for performing nonaudit services in paragraphs 3.34–.44 of *Government Auditing Standards* have been met, including a determination that a designated individual possesses suitable SKE to oversee the nonaudit service; and
- significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards.

.66 It is important to note that the 2011 revision of *Government Auditing Standards* does not contain a listing of permitted nonaudit services, which is in line with a principles-based approach. Unless a nonaudit service is specifically prohibited, and therefore is deemed to impair independence, auditors should apply the conceptual framework to determine whether independence is impaired. The use of the conceptual framework provides a means to demonstrate that a nonaudit service does not impair independence.

.67 Paragraphs 3.49–.58 of the 2011 revision also provide information on certain nonaudit services that always impair an auditor's independence. It is important to note that the specific prohibited nonaudit services identified in the standards are not the only services that would impair independence. As noted previously, other nonaudit services that impair independence should be identified through applying the conceptual framework to the nonaudit services performed by the auditor.

.68 The 2011 revision discusses and identifies specific routine activities performed by auditors that are not considered nonaudit services and, therefore, would not have to be evaluated using the conceptual framework. Routine activities generally involve providing advice or assistance to the entity on an informal basis as part of an audit. They are typically insignificant in terms of

time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product. However, it is important to note that activities such as financial statement preparation, cash to accrual conversions, and reconciliations are considered to be nonaudit services under *Government Auditing Standards*, not routine activities related to the performance of an audit, and are required to be evaluated using the conceptual framework.

Documentation

.69 Documentation requirements have been added to support adequate consideration of auditor independence. These requirements are a significant change from previous requirements under *Government Auditing Standards*. Paragraph 3.59 of the 2011 revision adds specific requirements that include documentation of

- threats to independence that require the application of safeguards, and of the safeguards applied to eliminate threats or reduce them to an acceptable level, in accordance with the conceptual framework.
- consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor.
- the auditor's understanding with an audited entity for which the auditor will perform a nonaudit service.

.70 In addition, if an audit organization is structurally located within a government entity, documentation should be made of the safeguards applied as required by paragraph 3.30 of *Government Auditing Standards*.

Final Note Related to Independence—Differences Between Government Auditing Standards and the AICPA Code of Professional Conduct

.71 Auditors performing audits under GAAS must comply with the AICPA Code of Professional Conduct, which includes rules related to auditor independence and when an auditor's independence is considered to be impaired. In an audit performed under *Government Auditing Standards*, the auditor also must comply with the requirements related to independence found in chapter 3 of the 2011 revision of *Government Auditing Standards*. Although the two sets of guidance have many similarities, there are differences that result in additional requirements in an audit performed under *Government Auditing Standards*. The following discussion highlights the differences between the independence requirements of *Government Auditing Standards* and the AICPA rules related to auditor independence.

Conceptual Framework

.72 Both sets of standards use a conceptual framework approach related to independence. The AICPA conceptual framework is used only when making decisions on independence that are not explicitly addressed in the AICPA Code of Professional Conduct. However, the conceptual framework under *Government Auditing Standards* must be used to evaluate threats to independence when providing nonaudit services that are not specifically prohibited. Therefore, the conceptual framework under *Government Auditing Standards* will be used more often than the AICPA conceptual framework.

Provision of Nonaudit Services

.73 Aside from when the conceptual framework is used to evaluate nonaudit services, there is one other significant difference between the AICPA independence rules and *Government Auditing Standards* as it relates to the provision of nonaudit services. Currently, AICPA rules do not consider services such as financial statement preparation, cash-to-accrual conversions, and reconciliations to be nonaudit services if performed as part of the audit engagement. Under the 2011 revision, *Government Auditing Standards* considers these activities to be nonaudit services that should be evaluated using the conceptual framework.

.74 However, in March 2013, the Professional Ethics Executive Committee of the AICPA adopted a provision that concludes that activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are considered to be outside the scope of the audit engagement, and therefore are considered to be nonaudit services. When the provision becomes effective, this will result in an auditor being required to comply with the general requirements of Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), when performing such activities. This provision of the code is effective for GAAS engagements covering periods beginning on or after December 15, 2014.

Documentation

.75 AICPA and *Government Auditing Standards* documentation requirements related to independence are very similar. However, whereas both require the auditor to assess whether the designated individual who is overseeing nonaudit services possesses SKE, only *Government Auditing Standards* requires the auditor to document that assessment. Federal agencies are likely to focus on the new documentation requirements in future quality control reviews (QCRs). The documentation requirements should be an area that is given special consideration by auditors performing nonaudit services for audit clients.

Resources Available Related to Independence

.76 A practice aid, *2011 Yellow Book Independence—Non-Audit Services Documentation Practice Aid*, developed by the GAQC, assists an auditor in evaluating nonaudit services and the effect of performing such services on auditor independence under the 2011 revision. This practice aid contains numerous explanations and illustrations that will help auditors in applying the conceptual framework for independence contained in the 2011 revision and complying with the new independence documentation requirements, including how auditors can document the consideration of management's SKE. See the "Resource Central" section for information on obtaining this practice aid and other resources related to auditor independence.

Competence

.77 Clarification is made that auditors qualified to perform *Government Auditing Standards* engagements include auditors in states with multiclass licensing systems that recognize licensed accountants other than CPAs.

CPE—Internal Specialists

.78 The 2011 revision highlights the distinction between internal and external specialists, and CPE requirements for internal specialists have been

clarified. Internal specialists consulting on a *Government Auditing Standards* engagement who are not involved in directing, performing audit procedures, or reporting on the audit, should be qualified and maintain professional competence in their area of expertise; however, they are not required to meet the *Government Auditing Standards* CPE requirements. Internal specialists performing work as part of the audit team are required to meet the *Government Auditing Standards* CPE requirements, and there is no change to that requirement. The 2011 revision continues the requirement that external specialists assisting in performing a *Government Auditing Standards* engagement should be qualified and competent in their areas of specialization; however, external specialists are not required to meet the *Government Auditing Standards* CPE requirements.

Quality Control

.79 The quality control requirements in the 2011 revision have been further harmonized with AICPA requirements, including the requirements related to communicating deficiencies noted and recommending remedial actions.

Peer Review

.80 The peer review requirements in the 2011 revision were further harmonized with AICPA requirements, including a revision of categories of peer review reports to "pass," "pass with deficiencies," and "fail." Furthermore, the 2011 revision includes guidance on modifying peer review reports when the scope of the review is limited. A requirement was added for the peer review team to include, either in the peer review report or in a separate written communication, a detailed description of peer review findings, conclusions, and recommendations related to deficiencies or significant deficiencies found.

Other Compliance Audit Considerations

Summary of Frequent Violations Relating to Single Audits—Ethics Division

.81 The AICPA Professional Ethics division investigates potential disciplinary matters that involve members of the AICPA and state CPA societies participating in the Joint Ethics Enforcement Program. The investigations of audits of governmental and not-for-profit entities are typically initiated by referral from the offices of inspectors general. The Professional Ethics division has compiled a summary of recent violations, as of December 31, 2012, that were found in investigations related to audits of governmental and not-for-profit entities. Frequent violations relating to a number of audit areas in a single audit are noted in the following paragraphs.

.82 *Deficiencies related to major programs.* Failure to accurately identify and test all major programs in accordance with OMB Circular A-133 was noted. Reasons included the following:

- Failure to combine expenditures with the same CFDA numbers
- Improper clustering
- Using an improperly calculated dollar threshold to distinguish between type A and type B programs
- Using an improper threshold to distinguish between type A and type B programs due to the use of prior year or preliminary

schedule of expenditures of federal awards (SEFA) numbers without recalculating the threshold for final amounts after adjustments

- An improper assessment of the entity as a low-risk auditee, which resulted in an incorrect percentage of major programs audit coverage
- Failure to consider loans in a major program assessment
- Failure to reconcile amounts presented in the financial statements to related amounts on the SEFA

.83 There was incorrect identification of the dollar threshold used to distinguish between type A and Type B programs in the schedule of findings and questioned costs.⁷ One instance appears to be the result of a practitioner believing the threshold for major program determination to be \$500,000, rather than \$300,000 (as found in Section .520 of Circular A-133).

.84 *Improper identification of the entity as a low risk auditee.* In particular, the requirement that a single audit be performed and a data collection form (DCF) be timely submitted to the Federal Audit Clearinghouse (FAC) for each of the two preceding years was not given proper consideration in determining whether the entity met low-risk auditee status. This situation could occur if a DCF was not filed in a year it was required or if the DCF was filed late.

.85 *Deficiencies related to the SEFA.* The auditor failed to consider modifying the opinion when the following information was missing on the SEFA:

- CFDA, or other identifying number when the CFDA number is not available
- Name of the federal agency or the name of the pass-through entity and identifying number of the pass-through entity
- Total federal expenditures for each federal program
- Notes describing the significant accounting policies used in preparing the schedule

.86 *Auditor reporting deficiencies.* The following deficiencies were found related to auditor reporting:

- Incorrect or outdated wording was used in the auditor's reports.
- Wording required to be included that refers to the report required under *Government Auditing Standards* was missing.
- The auditor's report was not properly dated, either because the report was reissued or because the report was dated before sufficient appropriate audit evidence was obtained.

.87 *Inadequate audit procedures and documentation.* The following deficiencies were found related to audit procedures:

- Sufficient appropriate audit evidence was not obtained due to insufficient testing of compliance requirements or using out of date work programs or disclosure checklists.

⁷ There appears to be an increased focus on findings by federal agencies. It is important to include all required elements for each finding and provide complete information so that the federal agency can understand and resolve the finding.

- Sufficient appropriate audit evidence was not obtained due to a lack of understanding of the difference between internal control and compliance testing, or the improper use of dual purpose sampling.
- Inadequate documentation was made of audit procedures performed.

.88 *Sampling deficiencies.* Deficiencies were found related to the use of dual purpose sampling. This could be caused by a number of reasons, including the following:

- Testing a sample for compliance and then assuming the internal control is working if no exceptions are found
- Testing a sample for compliance and internal control but not documenting the internal control portion of the testing
- Using the same sample to test two or more compliance requirements when all those compliance requirements are not applicable to all items in the sample (this may result in the sample size for a particular compliance requirement being too low)
- Picking a sample to be used for internal control testing covering many programs without ascertaining that all programs to be tested are represented in the sample

.89 The listing of violations of professional standards noted previously is not an all-inclusive list of those found. However, it may serve as a reminder that it is important that an auditor keep well informed regarding requirements related to the performance of a single audit and the related reporting. Care should be taken to ensure that sources of information and resources used in the audit are up to date and appropriate for the audit work to be performed. The following is a listing of practice tips for avoiding audit deficiencies:

- Ensure the audit engagement team is working with current OMB guidance, including the most recent compliance supplement that includes federal program cluster listing in Part 5.
- Obtain appropriate CPE each year, keeping in mind the additional CPE requirements of *Government Auditing Standards*.
- Consider obtaining some of the required CPE by attending a conference related to single audits because of the wide variety of topics available.
- Review your firm's DCF submissions for deficiencies prior to submitting to the FAC and consider reviewing your completed audits in the FAC database to check for common problems areas (for example, the use of \$500,000 for the major program threshold).
- Select an adequate cross-section of governmental audits for internal engagement QCRs (consider using AICPA peer review and other checklists as part of these reviews).⁸
- Find a good source of up-to-date information and materials that will assist in performing audits under *Government Auditing*

⁸ See the "Inquiries From a Federal Office of Inspector General" section found later in this alert.

Standards and Circular A-133, such as the GAQC⁹ and the AICPA Audit Guide Government Auditing Standards and Circular A-133 Audits.

Sources of Funding in a Single Audit

.90 A key part of an auditee's responsibility is to have a system in place to track revenue sources that will result in the proper identification of the source of all funding. In addition to direct funding, federal funding may be received from a subrecipient, and the source of funds may not be readily apparent. It may be necessary to trace to the source of such funding to properly identify its source as federal funding. Proper identification of funding sources assists the auditee in determining whether a single audit is required based on funding sources. In addition, the proper identification of funding allows the auditee to prepare an accurate SEFA. A failure on the auditee's part to identify funding sources accurately could have implications for findings related to internal control.

.91 As it relates to the auditor, proper identification of funding by the auditee is important for a number of reasons. As part of understanding the entity and its environment, it is important that the auditor understand the source of all funding so that sufficient planning and performing of compliance testing is accomplished. In addition, failure to properly identify federal funding and its source may have a significant effect on the identification of major programs. The end result could be a one or more of the audit deficiencies noted in the preceding section, "Summary of Frequent Violations Relating to Single Audits—Ethics Division" of this alert.

Audits of For-Profit Entities

.92 Many federal agencies require audits of for-profit entities that participate in federal programs. These audits are generally required to be performed under *Government Auditing Standards*. The additional requirements for the audits vary. Some require a financial statement audit in accordance with *Government Auditing Standards*, along with a compliance audit that is performed using requirements defined in a federal audit guide. Some require only a compliance audit or program-specific audit. The key for auditors and auditees is to ensure that an appropriate understanding of the applicable audit requirements is obtained and that there is an awareness of where to find related guidance.

.93 The GAQC website includes a summary of the various federal audit and attestation guides applicable to for-profit entities that the GAQC is aware of, as well as links to where auditees and auditors can find them. This summary can be found on the GAQC website at www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/AuditPracticeToolsAids/Pages/OtherComplianceAuditInformationRelatingtoFor-Profits.aspx.

.94 Auditors are cautioned that much of the federal agency guidance cited in the summary has not been updated for many years. Therefore, many have not been updated for current professional standards. The GAQC is continuing to work with those federal agencies, encouraging them to update and maintain audit guidance on a timely basis. However, keep in mind that paragraph .22 of AU-C section 935 states that "[i]n instances where audit guidance provided

⁹ See the "Resource Central" section of this alert for information about the AICPA Government Audit Quality Center.

by a governmental agency for the performance of compliance audits has not been updated for, or otherwise conflicts with, current GAAS or *Government Auditing Standards*, the auditor should comply with the most current applicable GAAS and *Government Auditing Standards* instead of the outdated or conflicting guidance." Paragraph .A27 of AU-C section 935 goes on to state that "[w]hen there is conflicting guidance, the auditor may decide to consult with the government agency responsible for establishing audit guidance or that provides the funding."

Inquiries From a Federal Office of Inspector General

.95 Circular A-133 provides that cognizant agencies for audit should conduct or obtain QCRs of selected single audits. A QCR is typically initiated and performed by an Office of Inspector General (OIG), who will give notification to the auditor that a QCR of a client's Circular A-133 audit report is to be performed.

.96 The objectives of a QCR of a single audit are to

- ensure that the audit was conducted in accordance with applicable standards and that it meets the single audit requirements,
- identify any follow-up audit work needed, and
- identify issues that may require management attention.

.97 OIGs typically require corrective action on audit reports that are technically deficient or substandard. For audits that are substandard, OIGs may refer auditors who are CPAs to state licensing officials and, if they are members, to the AICPA for disciplinary action.

.98 If an auditor receives notification that a QCR will be performed, it is important to have available all documents needed by the reviewer. Before the review begins, the engagement partner and any other key staff that will be involved with the QCR should re-familiarize themselves with the engagement specifics. Some firms also ask that a partner with single audit experience, but not associated with the engagement, review the documentation. The purpose of this review is to help identify areas of the engagement that OIG reviewers may focus on, which in turn will allow engagement staff to be prepared for what may come up in the review. Reviewing the audit documentation may also give the auditor an idea of what questions may arise or other documentation that may be requested by the OIG. It is important to note that no revisions should be made to the documentation during this process or at any other time.

.99 Checklists, such as AICPA peer review checklists,¹⁰ may be a good source of information to assist auditors in a review of audit documentation as part of preparing for the QCR. The Council of the Inspectors General on Integrity and Efficiency also published two guides in 2010 that are used by federal agencies when reviewing single audits—Guide for Quality Control Reviews of OMB Circular A-133 Audits and Guide for Desk Reviews of OMB Circular A-133 Audit Reports.¹¹ Your firm should consider using these guides as part

¹⁰ The AICPA peer review checklists are available to members on www.aicpa.org.

¹¹ These checklists are available at www.ignet.gov/pande/audit1.html#standards. Although these checklists may provide the auditor with an overall idea of what may be considered in such a review, it is important to note that the checklists were last updated in 2010 and therefore have not been updated for recent revisions to applicable standards. Care should be taken regarding the use of those checklists until the checklists are updated for the revised standards.

of your inspection and quality control programs. Taking this step may help improve the quality of your governmental audit and attestation engagements.

.100 The GAQC has available to its members several types of information to assist an auditor in navigating a QCR. Tips regarding each step of the process are provided along with other related resources. See the "Resource Central" section for information on the GAQC.

Reissuance of Reports—Single Audit Considerations

.101 A number of situations may require the auditor to reissue one or more of the reports originally issued as part of a single audit. Among the reasons a report may need to be reissued are an error in major program determination, unreported findings, or errors in the SEFA caused by the incorrect reporting of program expenditures. In addition, a report may have to be reissued as a result of a QCR performed by a governmental agency or a peer review performed on the firm. See the previous section "Summary of Frequent Violations Relating to Single Audits—Ethics Division," for information on frequently found violations that illustrate other situations that may result in a reissuance of a report.

.102 Finding an error in reporting may affect a single audit in several ways. It could mean reissuing the auditor's report on the financial statements, the additional report required under *Government Auditing Standards*, or the reports related to the compliance audit portion of a single audit. Discussed in the following paragraphs are considerations related to reissuing a report related to the compliance audit portion of the single audit.

.103 Paragraph .43 of AU-C section 935 provides guidance related to reissuing an auditor's report on compliance, including the reissuance of an auditor prepared document required by the governmental audit requirement that is incorporated by reference into the auditor's report, such as the schedule of findings and questioned costs. In a reissued compliance report, the auditor should include an other-matter paragraph stating the report is replacing a previously issued report and describing the reasons why, and any changes from the previously issued report. If additional audit procedures are performed to obtain sufficient appropriate audit evidence, the date of the auditor's report should be updated using the guidance found in AU-C section 935.

.104 In the event a reissuance of a compliance report is necessary and the information found on the previously submitted DCF has changed as a result of that reissuance, the DCF will need to be resubmitted to the FAC. In order to do this, the entire single audit package will need to be resubmitted.

Understanding Internal Control in a Compliance Audit

.105 As part of performing a compliance audit, AU-C section 935 states that the auditor should perform risk assessment procedures to obtain sufficient understanding of the applicable compliance requirements and the entity's internal control over compliance with the applicable compliance requirements. As part of understanding internal control in a compliance audit, the requirements and guidance found in AU-C section 315 are applicable. That guidance and the 2011 revision of *Government Auditing Standards* recognize the definition and description of internal control contained in *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

.106 The COSO framework defines five components of internal control:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring activities

.107 In a single audit, these five components of internal control are considered in a number of areas, including understanding the entity and documenting the entity's internal control over compliance for each direct and material compliance requirement.

.108 The updated COSO integrated framework was released in May 2013. The updated framework does not change the basic framework, but instead makes it easier to use and updates it for changes in technology, organizational structures, and governance processes that have evolved since the original framework was developed in 1992. The principles in the updated framework will help tailor the auditor's work program in order to understand, test, document, and report control deficiencies.

.109 In summary, when performing a compliance audit it is important to document internal control as it relates to compliance using the COSO framework in a similar fashion as is done for the financial statement portion of the audit. Because the documentation of internal control over compliance in a single audit has been identified as an area with audit quality issues, the use of the updated framework will assist the auditor in high-quality documentation of internal control over compliance in a single audit.

Auditor Certifications

.110 There has been an increase in requests by federal, state, and county agencies for an auditor to sign a certification stating that an audit client (the entity) has appropriate or effective internal controls. Certifications may also be requested for other purposes. The certification is often in the form of an agency generated statement that the auditor is requested to sign.

.111 An auditor should not sign such a statement unless an examination under professional standards related to that statement has been performed. That being said, it may be very difficult for an auditor to design an engagement specifically for that purpose that would meet professional standards. This is especially true in the case when an agency requests an auditor to certify the capabilities of a potential recipient's system to account for federal funding prior to an award being made.

.112 If the auditor does sign such a certification without performing an examination under professional standards, it may have significant repercussions related to liability insurance, professional licensing, or both.

.113 When an engagement under professional standards has not been performed, rather than signing a certification, the auditor may want to reach out to the requesting agency and provide them with an explanation of why it cannot be done under professional standards. The request may be accommodated in other ways. For example, for a single audit client, a previously issued financial statement report or single audit report could be submitted with an explanation regarding why signing such as certification is not appropriate under professional standards.

On the Horizon

.114 Auditors should keep abreast of developments and upcoming guidance that may affect their engagements. The following sections present information about ongoing projects that have particular significance to single audits. Remember that proposed guidance is nonauthoritative and cannot be used as a basis for changing existing standards. In addition, it is likely that the final guidance, as issued, will differ in some respects from the proposed guidance described in the following sections.

.115 Information on, and copies of, outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to the Audit Risk Alert *General Accounting and Auditing Developments—2012/13* (product nos. ARAGEN12P, ARAGEN12E, or WGE-XX) for further information.

Proposed Revisions to the DCF and Other FAC Activity

.116 OMB released a Federal Register Notice on May 9, 2013, that contains proposed changes to the DCF. The changes to the form (SF-SAC) and instructions, as finalized, will be applicable for audit periods ending in 2013, 2014, and 2015. The proposed changes to this version of the DCF are more substantial than recent updates to the form. An overview of the proposed revisions can be found subsequently; however, it is important to remember that these are proposed changes and that the final revisions could be different than those proposed in the May 9, 2013, notice.

.117 The notice proposes changes that revise some existing data elements in the form and add other data elements that would make it easier for federal agencies to identify the types of audit findings reported in a single audit. The following are the proposed additional data elements:

- The employer identification number (EIN) of the audit firm must be reported on the DCF. Any secondary auditor's EIN must also be reported on the form.
- For each federal award reported, an indication (yes/no) will be made regarding whether the award is a federal loan or federal loan guarantee.
- Audit finding reference numbers must follow a standard format beginning with the updated DCF form. The proposed format is the four-digit audit year followed by a hyphen and the three digit sequence number (for example, 2013-001, 2013-002, and so on). The reference numbers on Form SF-SAC should match those reported in the schedule of findings and questioned costs.
- The number of findings for each federal award will be indicated in a new column.
- New federal award findings summary section will be added to part III. A row for each audit finding will need to be completed for each federal award affected by that finding. Information elements related to findings will be moved to this section from other sections of the form and new elements are added.

.118 Comments on the proposed revisions to the DCF are due July 8, 2013. Auditors should be alert for the release of the updated SF-SAC. The revised form will most likely not be available until late summer 2013. The OMB is considering guidance to extend the 30-day deadline for submission prescribed by OMB Circular A-133 Section .320(a) if a 2013 single audit is due before the 2013 form is available. Any guidance issued regarding an extension will be available on the FAC website.

.119 You should also be aware that the FAC will be making system modifications in the upcoming months that will result in new steps for submitting the DCF. The new system is likely to be launched around the same time that the new form is released. Additionally, the OMB is phasing in requirements for the format of the Circular A-133 reporting package, which includes the auditor's reports and findings, such that they will need to be submitted as unlocked, unencrypted, and text-searchable PDF files. For 2013, only audits that have a federal cognizant agency for audit are being required to upload the Circular A-133 reporting package in this manner. For the vast majority of single audits, or those that do not have a federal cognizant agency for audit, this formatting requirement will become effective for 2014 single audits. Finally, the OMB's ultimate goal in the future is to achieve more transparency surrounding the results of single audits by providing public access to all reporting package submissions to the FAC, including auditor's reports and findings. Although this is not likely to happen in the upcoming year, it may be something that auditors should keep on their radar for the future.

Proposed Revisions to OMB Circular A-133

.120 On February 1, 2013, the OMB published for comment the proposed rule, *Proposed OMB Uniform Guidance Cost Principles, Audit, and Administrative Requirements for Federal Awards*. As of the date of this writing, the comment period related to this proposed guidance, after being extended, is scheduled to end on June 2, 2013. It is not yet known when any final guidance will be issued or effective. The GAQC website is a good source of up to date information on these developments. Auditors may want to monitor the progress of these revisions and their effective date in order to be ready for implementation of the revisions.

.121 The proposed rule establishes uniform cost principles and audit requirements for all federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. As a result, the proposed rule, if enacted, would supersede a number of OMB Circulars. Those that would be superseded of particular relevance to readers of this alert include the following:

- A-21, *Cost Principles for Educational Institutions*
- A-87, *Cost Principles for State, Local and Indian Tribal Governments*
- A-102, *Grants and Cooperative Agreements With State and Local Governments*
- A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospital, and Other Nonprofit Organizations*
- A-122, *Cost Principles for Non-Profit Organizations*
- A-133

.122 The proposed rule consolidates the guidance contained in the superseded circulars into a streamlined and consolidated format that is intended to improve both the clarity and accessibility of the guidance. The proposal notes that it strives to revise those rules that are outdated, ineffective, insufficient, or excessively burdensome.

.123 The proposed revisions to the guidance found in Circular A-133 are numerous. Some are simple wording changes or updates due to passage of time or use of technology. Other proposed revisions will significantly affect all single audits. Some of the more significant of those proposed revisions are

- nonfederal entities that expend \$750,000 or more of federal awards in a year would be required to have a single audit (increased from \$500,000).
- the minimum threshold for type A/B major program determination would be revised to \$500,000 (increased from \$300,000).
- the criteria for the determination of high-risk type A programs would be revised.
- the number of high-risk type B programs that should be tested as major programs would be revised to at least one-fourth of the number of low-risk type A programs (reduced from one half).
- small type B programs (those falling below the threshold for risk assessment) would be considered those that are a flat 25 percent of the type A/B threshold.
- the percentage of coverage required in a single audit would be changed to 40 percent (non-low-risk auditee) and 20 percent (low-risk auditee) (currently it is 50 percent [non-low-risk auditee] and 25 percent [low-risk auditee]).
- the threshold for reporting questioned costs would be raised to \$25,000 (from \$10,000).
- changes to the Circular A-133 compliance supplement would reduce the number of compliance requirements to be considered in a single audit from 14 to 7.
- the consolidated guidance would be contained in one document.

.124 Some smaller changes that would affect reporting in a single audit are

- as it relates to the Summary Schedule of Prior Audit Findings, the schedule would contain additional information that describes the reason for the finding's recurrence when an audit finding is not corrected, or only partially corrected in a subsequent year.
- management of the entity would be required to sign a statement that includes that the reporting package does not include personally identifiable information. This requirement is added because the FAC (or other designated clearinghouse) will be required to make audit reporting packages available to the public.
- subrecipients would no longer be required to submit a reporting package to a pass-through entity as previously required in certain circumstances. This change is due to the public availability of FAC reporting packages.

- federal agencies will no longer have the authority to grant extensions of the due date of reports.

Resource Central

.125 The following are various resources that practitioners who perform financial statement audits under *Government Auditing Standards* and compliance audits under Circular A-133 may find beneficial.

Publications

.126 Practitioners may find the following publications useful. Choose the format best for you—print, ebook, or online:

- Audit Guide *Government Auditing Standards and Circular A-133 Audits* (2013) (product nos. AAGGAS13P [paperback], AAGGAS13E [ebook], or WRF-XX [online])
- Audit and Accounting Guide *Not-For-Profit Entities* (2013) (product nos. AAGNFP13P [paperback], AAGNFP13E [ebook], or WNP-XX [online])
- Audit and Accounting Guide *State and Local Governments* (2013) (product nos. AAGSLG13P [paperback], AAGSLG13E [ebook], or WGG-XX [online])
- Audit Risk Alert *General Audit Risk Alert—2012-13* (product nos. ARAGEN12P [paperback], ARAGEN12E [ebook], or WGE-XX [online])
- Audit Risk Alert *Not-for-Profit Entities Industry Developments—2013* (product nos. ARANFP13P [paperback], ARANFP13E [ebook], or WNP-XX [online])
- Audit Risk Alert *State and Local Governmental Developments* (2013) (product no. ARASLG13P [paperback], ARASLG13E [ebook], and WGG-XX [online])

.127 As noted previously, a practice aid, *2011 Yellow Book Independence—Nonaudit Services Documentation Practice Aid*, has been developed by the GAQC to assist an auditor in evaluating nonaudit services and the effect of performing such services on auditor independence under the 2011 revision of *Government Auditing Standards*. Available with the practice aid is an electronic template that auditors can prepare and save to meet the Yellow Book documentation requirements when identifying and evaluating threats to independence relating to nonaudit services. That is, auditors can input their responses to various independence considerations outlined in the template for each engagement. The template can then be easily saved and used as part of the audit documentation. This publication is available at www.cpa2biz.com (product no. APAYBI12D [on-demand]).

.128 AICPA members can access the practice aid without the electronic supplement at no cost by visiting the GAQC on the AICPA website. You must be logged in to access the document.

Continuing Professional Education

.129 The AICPA offers a number of CPE courses that are valuable to CPAs working in public practice and industry, including many that are specifically

related to audits performed under *Government Auditing Standards* and compliance audits performed under Circular A-133. This year, the course offerings have undergone extensive updating due new guidance and requirements. Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.130 AICPA CPEExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPEExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at www.cpa2biz.com/AST/AICPA_CPA2BIZ_Pages/C2BOnlineSubscriptionsPage/Section2/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp (product no. BYT-XX).

.131 Also available is CPEExpress—Government & Not-for-Profit, which offers over 65 courses totaling more than 95 hours of CPE focusing on areas of special interest to those performing audits in accordance with *Government Auditing Standards* and OMB Circular A-133. AICPA members pay \$129, with nonmembers paying \$229, for 1 year of unlimited online access to courses in the Government & Not-For-Profit CPEExpress library. The following topics are a sample of those included in the course offerings:

- Single audits
- Yellow Book requirements
- Accounting requirements for governments and not-for-profit entities
- HUD-assisted projects
- Audit and accounting annual and quarterly updates on recent developments

To register or learn more, visit www.cpa2biz.com/AST/Main/CPA2BIZ.Primary/Accounting/IndustryspecificGuidance/Government/PRDOVR~PC-BYTG12/PC-BYTG12.jsp (product no. BYTG12).

Webcasts

.132 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/Store/Webcasts.jsp.

Industry Conferences

.133 The AICPA sponsors four annual conferences that include a focus on *Government Auditing Standards* and OMB Circular A-133 topics that are held in the summer and fall of each year.

.134 The National Governmental Accounting and Auditing Update Conference (GAAC) EAST will be held August 12–13, 2013, in Washington, D.C., and its counterpart, GAAC WEST, will be held September 16–17, 2013, in Las

Vegas, NV. These conferences are designed for CPAs working in federal, state, and local government; public practitioners performing single audits; and regulators who need to be aware of emerging developments. Attending one of these conferences is a great way to receive timely guidance regarding federal (Washington, D.C. location only), state, and local areas along with practical advice on how to handle new legislation and standards from key government officials and representatives of the accounting profession, including the standard setters themselves.

.135 The AICPA National Governmental and Not-for-Profit Training Program will be held October 21–23, 2013, in Orlando, FL. If you need hands-on training and are a CPA in public practice or a governmental or not-for-profit staffer, then this conference is for you. You'll hear directly from the standard setters and industry leaders on a variety of topics, including developments in governmental accounting and auditing, financial statement reporting, the latest in proposed regulations and laws on the local, state, and federal government levels, as well as those affecting the not-for-profit sector.

.136 The National Not-for-Profit Industry Conference will be held June 11-13, 2014, in Washington, D.C. The conference offers a wide range of topics geared to not-for-profit professionals at every level: tax, management, audit and accounting, fundraising, and regulatory.

.137 For further information about the conferences, call 888.777.7077 or visit www.cpa2biz.com.

Member Service Center

.138 To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.139 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/Research/TechnicalHotline. Members can also e-mail questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a Technical Inquiry form found on the same website.

Ethics Hotline

.140 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 or by e-mail at ethics@aicpa.org.

AICPA Online Professional Library: Accounting and Auditing Literature

.141 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm's needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to the Financial Accounting Standards Board *Accounting Standards Codification*[™]; the AICPA's latest *Professional Standards*, *Technical Practice Aids*, *Audit and Accounting Guides*, *Audit Risk Alerts*, *Accounting Trends & Techniques*; and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Codified Clarity Standards

.142 The best way to obtain the codified clarity standards is with a subscription to AICPA *Professional Standards* in the AICPA Online Professional Library. Although the individual SASs are available in paperback, this online codified resource is what you need to update your firm audit methodology and begin understanding how clarity standards change certain ways you perform your audits. Visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/MostPopularProductGroups/AICPAResourceOnline/PRD~PC-005102/PC-005102.jsp for online access to AICPA *Professional Standards*.

.143 You can also get the clarified standards in paperback format. *Codification of Statements on Auditing Standards* is published each spring and includes the clarified auditing standards and the attestation standards. *Professional Standards*, which has the full complement of AICPA standards, is published each summer.

.144 The codification of clarified standards includes various resources:

- A preface, "Principles Underlying the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards"
- A glossary of terms defined in the standards
- Appendixes describing the differences between GAAS and the International Standards on Auditing
- A table mapping the extant AU sections to the clarified AU-C sections

Financial Reporting Center of AICPA.org

.145 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center to support you in the execution of high-quality financial reporting. This center provides exclusive member-only resources for the entire financial reporting process and can be accessed at the Financial Reporting Center interest area on the aicpa.org website.

.146 The Financial Reporting Center provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.

.147 For example, the Financial Reporting Center offers a dedicated section to the Clarity Project. For the latest resources available to help you

implement the clarified standards, visit the "Improving the Clarity of Auditing Standards" page.

AICPA GAQC

.148 The GAQC is a voluntary membership center for CPA firms and state audit organizations, designed to improve the quality and value of governmental audits. For the purposes of the GAQC, governmental audits are performed under *Government Auditing Standards* and are audits and attestation engagements of federal, state, or local governments; not-for-profit entities; and certain for-profit organizations, such as housing projects and colleges and universities that participate in governmental programs or receive governmental financial assistance. The GAQC keeps members informed about the latest developments and provides them with tools and information to help them better manage their audit practice. CPA firms and state audit organizations that join demonstrate their commitment to audit quality by agreeing to adhere to certain membership requirements.

.149 The GAQC has been in existence since September 2004. Since its launch, center membership has grown to 20 state audit organizations and approximately 1,800 firms from 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The CPA firm members of the GAQC account for over 91 percent of the total federal expenditures covered in single audits as found in the FAC (<http://harvester.census.gov/fac/>) for the year 2010 (the latest year with complete submission data). The GAQC's focus is to promote the highest quality audits and to save members time by providing a centralized place to find information that they need, when they need it, to maximize quality and practice success. Center resources and benefits include the following:

- E-mail alerts with the latest audit and regulatory developments, including information on the revisions relating to Circular A-133 as set forth by the OMB
- Exclusive webcasts and webinars on compliance auditing and timely topics relevant to governmental and not-for-profit financial statement audits (optional CPE is available for a small fee, and events are archived online)
- Dedicated GAQC website on the aicpa.org website with resources, community, events, products, and a complete listing of GAQC members in each state
- Single audit practice aids and tools, some of which are described in this alert and are available via the GAQC website
- An Auditee Resource Center containing practice aids and other resources to keep auditees well informed about audit requirements and other issues related to their audits¹²
- Online member discussion forums for sharing best practices and discussing issues members are facing
- Advocacy regarding issues related to the audit and regulatory environment facing auditors
- Savings on professional liability insurance

¹² See the "AICPA GAQC Auditee Resource Center," section of this alert for more information.

.150 Whereas some of the GAQC's resources are available only to members, other resources are available to the public and can be accessed from the GAQC website. For more information about the GAQC, visit the GAQC website at www.aicpa.org/GAQC.

Help Desk: With all the current revisions to standards related to single audits, your CPA firm or state audit organization should consider joining the center. To enroll or learn more about the GAQC, including details on the membership requirements and fees and for a preview of member benefits, go to the membership page of the GAQC at www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/MEMBERSHIP/Pages/default.aspx or e-mail the GAQC staff at GAQC@aicpa.org.

GAQC Executive Committee

.151 The GAQC is governed by an executive committee that establishes general policies of the center and oversees its activities. It also establishes membership requirements of the center, subject to AICPA Board of Directors approval. Members of the executive committee must be members of the AICPA. For more information, visit www.aicpa.org/interestareas/governmentalauditquality/community/pages/governmental%20audit%20quality%20executive%20committee.aspx.

AICPA GAQC Auditee Resource Center

.152 Although the GAQC is a voluntary membership center intended primarily to assist CPA firms and state audit organizations in improving their audit quality, the GAQC also hosts an Auditee Resource Center, open to the public, that is intended for procurers of audit services (auditees). Information found on this section of the GAQC website relates to auditees that are required to undergo audits performed under *Government Auditing Standards*. Those audits include financial statement audits of governments and not-for-profit entities; Yellow Book audits; and compliance audits including audits performed under Circular A-133 (referred to as *single audits*), HUD audits, and other compliance audits of for-profit entities.

.153 Although auditors are ultimately responsible for providing high quality audit services, the GAQC recognizes that auditees play a key role in the audit process and are an important factor in the audit quality equation. Well informed auditees with strong governance structures increase the likelihood of high quality audits and more efficient audits. Why might that be? Experience has shown that these auditees generally spend more time considering the qualifications of a potential auditor during the hiring process and evaluating the reasonableness of an auditor's anticipated hours in relation to the proposed fee based on the work to be performed. Further, these auditees have a stronger understanding about the audit requirements that apply to them; are better prepared for their audits; and more clearly understand their role in the audit process.

.154 To assist auditees with the audit process, the GAQC Auditee Resource Center includes information, tools, practice aids, and other resources that should be of interest and benefit to auditees. Additionally, everything

available in the Auditee Resource Center is open to the public. Some of the information available at the center include resources that the GAQC also makes available to its auditor members. Further, other auditee-specific resources have been developed and are available at the center and more will be added on a go-forward basis. Auditors should let their clients know about this new resource.

AICPA Industry Expert Panels

AICPA Industry Expert Panel—State and Local Governments

.155 The State and Local Government Expert Panel is an AICPA volunteer group whose purpose is to identify state and local government financial reporting and auditing issues and to work with appropriate bodies for resolutions benefiting the public interest; conduct liaison activities with the Governmental Accounting Standards Board, regulators such as the GAO and OMB, and applicable industry associations; and advise and assist in the development of AICPA products and services related to state and local government audits. For information about the activities of the State and Local Government Expert Panel, visit the panel's web page in the "Industry Insights" section of the FRC at www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert_Panel_State_and_Local_Governments.aspx.

AICPA Industry Expert Panel—Not-for-Profit Entities

.156 The AICPA Not-for-Profit Entities Industry Expert Panel assists those working in the industry by identifying financial reporting and auditing issues within the industry for which guidance from standard-setting bodies is needed and by working with appropriate bodies having authority over such standards in finding resolutions to the issues. For more information about the activities of the Not-for-Profit Entities Expert Panel, visit the panel's web page in the "Industry Insights" section of the FRC at www.aicpa.org/InterestAreas/FRC/IndustryInsights/Pages/Expert_Panel_Not_for_Profit_Entities.aspx.

Industry Websites

.157 The Internet covers a vast amount of information that may be valuable to auditors performing single audits, including current industry trends and developments. Some of the more relevant sites for auditors performing single audits include those shown in the following table.

<i>Organization</i>	<i>Website</i>
AICPA	www.aicpa.org www.cpa2biz.com www.ifrs.com
Catalog of Federal Domestic Assistance (CFDA)	www.cfda.gov
Department of Education: Office of Inspector General Non-Federal Audit Team	www2.ed.gov/about/offices/list/oig/nonfed/nfteam.html
Department of Health and Human Services (HHS): Office of Inspector General	www.oig.hhs.gov

(continued)

<i>Organization</i>	<i>Website</i>
Department of Housing and Urban Development (HUD): Office of Inspector General	www.hudoig.gov
Federal Audit Clearinghouse (FAC)	http://harvester.census.gov/fac/
Federal Funding Accountability and Transparency Act (FFATA)	http://ffata.org/ffata/
FFATA Subaward Reporting System (FSRS)	www.fsrs.gov
The Federal Reserve Board	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	www.fasb.org
FirstGov	www.firstgov.gov
Government Accountability Office (GAO)	www.gao.gov 2011 Revision of <i>Government Auditing Standards</i> : www.gao.gov/yellowbook
Governmental Accounting Standards Board (GASB)	www.gasb.org
Governmental Audit Quality Center	www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx
Government Printing Office Access	www.gpo.gov/fdsys/
Grants.gov	www.grants.gov
IGnet	www.ignet.gov/
Office of Management and Budget (OMB)	www.whitehouse.gov/omb/ OMB circulars: www.whitehouse.gov/omb/circulars/ The American Recovery and Reinvestment Act of 2009 guidance: www.whitehouse.gov/recovery/
Private Company Financial Reporting Committee	www.pcfr.org
Public Company Accounting Oversight Board (PCAOB)	www.pcaob.org
Recovery.gov and Recovery Accountability and Transparency Board (RATB)	www.recovery.gov
USA.gov	www.usa.gov
USAspending.gov	www.usaspending.gov

The governmental practices of some of the larger CPA firms also may contain industry-specific auditing and accounting information that is helpful to auditors.
