

Yellow Book and Single Audit Update

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Yellow Book Introduction

GAS – When Applicable – FL Govt Audits

- Local governmental entities located in Florida are, in general, required by Florida law (Section 218.39, Florida Statutes) to have an annual "financial audit." The Florida Auditor General has adopted the auditing standards set forth in *Government Auditing Standards* as the standards for auditing local governmental entities pursuant to Florida law. Hence, the same auditing standards are applicable to Federal awards audits, State financial assistance audits, and financial audits required by Florida law and should eliminate duplication of audit activity.

GAS – When Applicable – Other

- If required by the Federal or State Single Audit Acts
 - Not for profit entities
 - For profit entities
- If required by specific grant agreements or contracts

GAS – Ethical Principles

Ethical principles help to:

- Preserve auditor independence
- Only take on work that the organization is competent to perform
- Perform high quality work
- Follow applicable standards

GAS – General Standards

- Independence
 - Applicable to organization and individual auditor, whether government or public
- Professional judgment
 - Must use in planning, performing and reporting
- Competence
 - Staff assigned must collectively possess adequate professional competence
- Quality control and assurance
 - Establish and maintain system of quality control
 - Have external peer review

Yellow Book Independence

GAS – General Standards - Independence

- Auditors should be independent from an auditee during:
 - Any period of time that falls within the period covered by the financial statements or subject matter of the audit, and
 - The period of professional engagement, which begins when the auditors either sign an initial engagement letter to perform an audit or begin to perform an audit, whichever is earlier.

GAS – General Standards - Independence

- GAS Conceptual Framework requires auditors to:
 - Identify threats to independence
 - Evaluate the significance of threats identified, both individually and in the aggregate, and
 - Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level

GAS – General Standards - Independence

- Broad categories of threats:
 - Self-interest threat
 - Self-review threat
 - Bias threat
 - Familiarity threat
 - Undue influence threat
 - Management participation threat
 - Structural threat

GAS – General Standards - Independence

- Examples of Safeguards:
 - Consulting with an independent third party
 - Involving another audit organization to perform or reperform part of the audit
 - Having a professional staff member who was not a part of the audit team review the work performed
 - Removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence

GAS – General Standards - Independence

- Nonaudit Services
 - Critical component – management’s ability to effectively oversee the nonaudit service to be performed
 - **S**kills
 - **K**nowledge
 - **E**xperience

GAS – General Standards - Independence

- Nonaudit Services – Activities considered Management Responsibilities and Impair Independence
 - Setting policies and strategic direction
 - Directing audited entity’s employees in their routine, recurring activities
 - Having custody of audited entity’s assets
 - Reporting to those charged with governance on behalf of management

GAS – General Standards - Independence

- Nonaudit Services – Activities considered Management Responsibilities and Impair Independence
 - Deciding which recommendations of auditor or other third party to implement
 - Managing an audited entity’s project
 - Designing, implementing or maintaining internal control

GAS – General Standards - Independence

- Nonaudit Services – Activities considered Management Responsibilities and Impair Independence
 - Providing services that are management’s primary basis for making decisions significant to audit
 - Developing entity’s performance management system which is significant to the audit
 - Serving as voting member of audited entity’s management committee or board of directors

GAS – General Standards - Independence

- Nonaudit Services – Specific areas where certain services always impair independence
 - Accepting responsibility for non tax disbursements
 - Benefit plan administration
 - Corporate finance – consulting or advisory
 - Executive or employee personnel matters
 - Business risk consulting

GAS – General Standards - Independence

- Routine activities directly related to an audit which do not impair independence:
 - Advice on accounting matter as part of the audit
 - Researching/responding to technical questions on tax laws
 - Advice on routine business matters
 - Educating audited entity on matters
 - Providing information that is readily available to entity and auditors

GAS – General Standards - Independence

Services which may/may not impair independence:

- Preparing accounting records/financial statements
- Internal audit assistance by external auditors
- Internal control monitoring
- Valuation services

- April 2015 AICPA Peer Review “Reviewer Focus”
 - “Peer reviewers should be aware that the failure to document one or more of the required elements of Yellow Book independence should ordinarily result in a **nonconforming engagement**”
 - “General verbiage of management’s responsibilities over “all nonaudit services” in the engagement letter or representation letter is not considered sufficient if it does not identify the specific nonaudit service”
 - “The GAO has indicated that, in its view, other than in very limited circumstances, preparing financial statements for an auditee would result in a significant threat for which safeguards should be applied and documented”

GAS – General Standards - CPE

- Each auditor performing work in accordance with GAGAS – 24 hours every 2 years of CPE that directly relates to government auditing or environment
- Auditors involved in any amount of planning, directing or reporting on GAGAS audits AND auditors not involved in those activities but charge 20% or more of their time annually to GAGAS audits must obtain another 56 hours that enhance professional proficiency to perform audits

- Noncompliance

- *Government Auditing Standards* require auditors to design their audits to provide reasonable assurance of detecting noncompliance with the provisions of contracts or grant agreements that could have a material effect on the financial statements. Paragraph 4.06 of the Yellow Book explains that the AICPA requirements pertaining to the auditors' responsibilities for laws and regulations also apply to consideration of compliance with provisions of contracts or grant agreements.

GAS – Evaluating Noncompliance and Abuse

- The determination of **abuse** is subjective, and auditor judgment is a factor. Section A.08 of Appendix I of *Government Auditing Standards* provides the following examples that, depending on the facts and circumstances, may constitute abuse:
 - Creating unneeded overtime,
 - Requesting staff to perform personal errands or work tasks for a supervisor or manager

GAS – Evaluating Noncompliance and Abuse

- Misusing the official's position for personal gain,
- Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive, and
- Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.

GAS – Evaluating Noncompliance and Abuse

As part of an audit in accordance with *Government Auditing Standards*, if an auditor becomes aware of abuse that could be quantitatively or qualitatively material to the financial statements, the auditor should apply audit procedures specifically directed to determining the potential effect on the financial statements. Examples of such procedures may be extending sample sizes by selectively choosing items for test work, and making inquiries of auditee officials about the nature of and reasons for the situation or transaction.

GAS – Evaluating Noncompliance and Abuse

- Abuse

- the Yellow Book states that if auditors become aware of abuse that could be material, they should determine the potential effect on the financial statements.

GAS – Evaluating Noncompliance and Abuse

- Testing for Noncompliance and Abuse
 - Review of governing body minutes
 - Review of grant, contract and contribution agreements
 - Review of correspondence from grantor agencies
 - Inquiry of management
 - Analytical procedures
 - Sampling of transactions
 - Management representations

GAS – Reporting Noncompliance and Abuse

- Combined report on ICFR and Compliance
- Use 20XX-XX numbering convention for findings
- Findings reported using specific elements:
 - Criteria
 - Condition
 - Cause
 - Effect or potential effect

GAS – Reporting Noncompliance and Abuse

- Recommendations may be provided
- Report should include, or make reference to, auditee's response to finding

GAS – Communicating Noncompliance and Abuse

- Requires the auditor provide written communication about findings of noncompliance or abuse “that are less than material but warrant the attention of those charged with governance”
- Auditor may have to communicate to granting or funding agencies if management or those charged with governance do not take appropriate actions

GAS – Additional Documentation Requirements

- Noncompliance with *Government Auditing Standards*
- Evidence of supervisory review
- Safe custody and retention of audit documentation
- Access to working papers

GAS – Additional Documentation Requirements

- Noncompliance with *Government Auditing Standards*
 - When auditors do not comply with GAS requirements, they should document (a) their departure from the requirements and the reasons for not complying, and (b) their assessment of the impact on the audit and their conclusions.

GAS – Additional Documentation Requirements

- Safe Custody and Retention of Audit Documentation
 - Auditors should establish “policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements.”

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GAS – Additional Documentation Requirements

- Access to Working Papers
 - The Yellow Book explains that cooperation among audit organizations in governments and auditors in public accounting firms is a key premise underlying *Government Auditing Standards*. It states that auditors should make audit documentation and appropriate individuals available in a timely manner when requested by other auditors or reviewers.

Single Audit Update

OMB Reforms

- Guidance issued (Uniform Guidance) 12/26/13
- Interim final rule issued 12/19/14
- Effective dates
 - One year from publication in Federal Register
 - Administrative requirements and cost principles
 - 12/26/14
 - Exception for procurement standards (nonfederal entities)
 - Audits
 - Fiscal Year Beginning (FYB) on or after 12/26/14

OMB Reforms (Continued)

Three areas of reform

- Audit requirements
- Administrative requirements
- Cost principles

All of 2 CFR Part 200 can be found at
www.ecfr.gov

Overview of Uniform Guidance

2 CFR Part 200

- Subpart A – Acronyms and Definitions
- Subpart B – General Provisions
- Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D – Post Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F – Audit Requirements
- Eleven Appendixes

OMB Reforms—Single Audit

Auditor implementation issue

- Auditees may have some federal awards subject to the administrative requirements and cost principles circulars and other awards subject to the Uniform Guidance administrative requirements and cost principles when the auditee has awards received on or after December 26, 2014.

Auditor implementation issue

- Whether the audit is performed under Circular A-133 or the Uniform Guidance has no impact on this. This situation will continue until all federal awards subject to the circulars have been expended.

Audit requirements are effective for audits of fiscal years ending on or after December 25, 2015.

Terminology (Subpart A)

- Must and should
- Laws, regulations, and provisions of contracts and grant agreements versus federal statutes, regulations, and the terms and conditions of federal awards
- Contractor versus vendor

OMB Reforms—Single Audit (Continued)

- Single audit threshold increased from \$500,000 to \$750,000.
- Internal control based on the Green Book or Committee Sponsoring Organizations of the Treadway Commission (COSO)-integrated framework is best practice.

OMB Reforms—Single Audit (Continued)

SEFA

- Required to include total amount to subrecipients
 - Each program
- Total for each cluster of programs
- Noncash assistance and the like on the face of the schedule of expenditures of federal awards (SEFA)

OMB Reforms—Single Audit (Continued)

Major program determination

- Type A increased from \$300,000 to \$750,000
- Low-risk type A programs
 - Must have been audited as major program in one of two most recent audit periods
 - Unmodified opinion on the program
 - No material weaknesses
 - No questioned costs exceeding 5 percent of program's expenditures
- No consideration of inherent risk is allowed

Major program determination – Type B Programs

- No longer an Option 1 and Option 2 when determining how many Type B programs need to be risk assessed
- The auditor is not required to test more high risk Type B programs that at least $\frac{1}{4}$ of the number of low risk Type A programs
- Small program exemption = “Small Type B”
 - From \$100,000 to 25 percent of Type A/B threshold

Major program determination

- Process of determining number of type B revised
 - Perform type B risk assessments until required number of high-risk type B programs are identified. Then, no further risk assessment is needed.
 - No option 1 or 2

OMB Reforms—Single Audit (Continued)

Percentage of coverage revised

- 20 percent —low-risk auditee (was 25 percent)
- 40 percent —non-low risk auditee (was 50 percent)

OMB Reforms—Single Audit (Continued)

Low-Risk Auditee: For last two audit periods

- Timely submission of Data Collection Form
- Unmodified reports on financial statements and SEFA
- No material weaknesses in *GAS* report on ICFR
- No going concern report
- No findings on Type A programs related to (a) IC material weaknesses, (b) modified report on a major program, or (c) known or likely questioned that exceeded 5% of the total of Type A programs for the period

Findings in the Compliance audit

- Findings
 - More detail required in auditor findings
 - Whether repeat from prior year and related finding number
 - Questioned costs increased from \$10,000 to \$25,000
 - Known or likely fraud affecting an award
 - Known to be identified by the Catalog of Federal Domestic Assistance (CFDA) and applicable award number
 - Elements expanded
 - Statement of cause
 - Statement of effect or potential effect (link between impact, condition, and criteria)

OMB Reforms—Single Audit (Continued)

Findings in the compliance audit

- Findings
 - Abuse now found in Office of Management and Budget (OMB) guidance
 - Generally accepted government auditing standards (GAGAS) findings to be included in the corrective action plan and summary schedule of prior audit findings as prepared by auditee
 - Summary schedule of prior audit findings must describe the reason for a findings recurrence.
 - Always include views of responsible officials.
 - Format of finding reference numbers must meet DCF requirements.