



Hot Topics in Auditing Pandemic Funding

November 29, 2022

Today's Speakers

Amanda Ward, CPA
Plante Moran



Tammy Erickson, CPA
Moss Adams



Monique Booker, CPA
SB & Company, LLC



What We Will Cover

Audits of single financial statements and elements,
performed in accordance with both GAAS and GAGAS

Program-specific audits

Auditing a program that is not included in the OMB
Compliance Supplement

A primer on compliance examination engagements

Resources (for participants to review later)

Terminology and Abbreviations

AL#	Assistance Listing Number	IIJA	Infrastructure Investment and Jobs Act
AT-C	Clarified Statements on Standards for Attestation Engagements	HHS	U.S. Department of Health and Human Services
AU-C	Clarified Auditing Sections in the Codification of Statements on Auditing Standards	HUD	U.S. Department of Housing and Urban Development
CFR	Code of Federal Regulations	NEU	Non-entitlement unit of local government (typically serving populations of less than 50,000)
CSLFRF or SLFRF	Coronavirus State and Local Fiscal Recovery Funds Program	OMB	Office of Management and Budget
DCF	Data collection form	PTE	Pass-through entity
F/S	Financial statements	PRF	Provider Relief Fund
FAC	Federal Audit Clearinghouse	R&D	Research and development
FFATA	Federal Funding Accountability and Transparency Act of 2006	SBA	U.S. Small Business Administration
GAAP	Generally Accepted Accounting Principles	SEFA	Schedule of Federal Expenditures
GAAS	Generally Accepted Auditing Standards	Supplement	2 CFR Part 200, Appendix XI, Compliance Supplement
GAGAS or Yellow Book (YB)	Government Auditing Standards	SVOG	Shuttered Venue Operators Grant Program
GAQC	Governmental Audit Quality Center	T&C	Terms and conditions
GAS-SA Guide	AICPA Audit Guide, <i>Government Auditing Standards and Single Audits</i>	Treasury	U.S. Department of the Treasury
I/C	Internal controls	UG	Uniform Guidance

Why did we pick today's hot topics?"

All became more common due to pandemic funding

- Numerous organizations have received federal funding for the first time and under only one federal program, becoming eligible for a program-specific audit
- Several federal agencies have extended audit requirements to for-profit entities and provided for alternatives to single audits, such as compliance examinations or financial audits of schedules of federal funding
- The increase in program-specific audits and financial audits of schedules of federal funding have led to an increase in reporting on a single financial statement or element under GAAS and GAGAS



Audits of Single Financial Statements and Elements Performed in Accordance with Both GAAS and GAGAS

Panel Discussion:

Question #1 - Prior to the pandemic, what are specific examples of audits of single financial statements and elements that you performed and how frequently did you perform them?

Question #2 – Post-pandemic, what are some specific examples of audits of single financial statements and elements you performed and how frequently did you perform them?



What Are Audits of Single Financial Statements and Elements?

In this type of an engagement, the auditor is engaged to express an opinion on either:

- a single financial statement (i.e. balance sheet, statement of income, or equivalents, etc.), or
- Specific element, account, or item of a financial statement (accounts receivable, schedule of expenditures of federal awards, schedule of revenues from federal awards, etc.)

AU-C section 805, [Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement](#), includes the requirements and related application guidance for these types of engagements

See paragraph .A33 of the AU-C 805 for examples of elements, accounts, or items of a financial statement

Auditor's Responsibilities in an Audit of Single Financial Statements and Elements

In an audit of a single financial statement or element, the auditor should adapt and apply all AU-C sections relevant to the audit:

- Paragraphs .A14 - .A17 of the AU-C section 805 provides guidance on adapting AU-C sections in the context of an audit of a specific element of a financial statement
- AU-C section is relevant to the audit when the AU-C section is in effect and the circumstances addressed by the AU-C section exist
- Check out the GAQC article, [Considerations for Governmental Audits of Single Financial Statements or Specific Elements, Accounts, or Items of a Financial Statement That Involve Federal Funding](#) that answers commonly asked questions related to such engagements

Engagement Acceptance

The appropriate engagement acceptance process should be followed consistent with GAAS, GAGAS, and your firm policy

- Document terms formally in an engagement letter
- Consider nonattest services performed and impact on independence
- Determine if the financial reporting framework used in the preparation of the statement / element is acceptable
 - An acceptable financial reporting framework is one that was established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, GAAP or a special purpose framework (i.e., cash, income tax, contractual, or regulatory basis))



AU-C 805 Materiality Considerations

AU-C 805.14 states that the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements

The determination of materiality for the schedule is –

- a matter of professional judgment determined by the auditor
- based on whether the auditor concludes that the schedule is presenting one specific element or multiple elements



**Normally,
materiality for a
schedule would be
lower than
materiality for the
entity's complete
set of financial
statements**

Planning and Risk Assessment

As tailored to the audit of a statement/element(s), the auditor should perform appropriate audit planning and risk assessment audit procedures, such as:

- Obtaining an understanding of the entity
- Obtaining an understanding of the entity's internal controls relevant to the subject matter of the audit, including the IT environment and related IT controls
- Performing preliminary analytical procedures
- Identifying risks of material misstatement (including risks from error or fraud)
- Establishing an overall audit strategy

Scope of the Audit

Paragraph .13 of AU-C section 805 states that the auditor should perform procedures on interrelated items as necessary to meet the objective of the audit.

- For example, when an auditor opines on a SEFA in a program-specific audit, it might be necessary to consider any related accruals for liabilities.

Best practice is to consider all potentially relevant assertions just as one would in an audit of a complete set of financial statements.

The risk of understatement/completeness of the subject matter may be higher, as the information subject to audit may not be a complete representation of financial position or results of operations.

Other Audit Procedures

Consideration of risks of fraud and related responses (AU-C 240)

- Conducting fraud interviews
- Incorporating an element of unpredictability
- Test of appropriateness of journal entries and adjustments relevant to the subject matter of the audit

Consideration of laws and regulations (AU-C 250)

- Laws and regulations relevant to the subject matter of the audit
- GAGAS introduces additional requirements in this area (refer to Chapter 6 of the Yellow Book)
- Keep in mind that for engagements, such as a financial audit of HHS awards, where federal funding is the sole item on the schedule, more work on the compliance may be needed

Communication with those charged with governance (AU-C 260)

Consideration of litigation, claims, and assessments (AU-C 501)

Consideration of related parties (AU-C 550)

Consideration of subsequent events (AU-C 560)

Consideration of going concern (AU-C 570)

If the engagement involves a **UG program-specific audit**, auditors will also need to consider AU-C 935, Compliance Audits, UG, GAGAS, the Supplement, agency guidance, and the T&C of federal awards

AU-C 805 Reporting Considerations

When reporting on audits of single financial statement / element also subject to GAGAS, the auditor should apply the following requirements:

- AU-C 700, [*Forming an Opinion and Reporting on Financial Statements*](#), and when applicable,
- AU-C section 705, [*Modifications to the Opinion in the Independent Auditor's Report*](#),
- AU-C 800, [*Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*](#)
- GAGAS and UG, as applicable

Refer to the GAQC [Governmental Illustrative Auditor's Reports](#) resource center, as well as the GAQC Practice Aid, [Auditing For-Profit Entities with PRF and Other HHS Program Funding](#) for examples of reports under AU-C 805

PLEASE
NOTE...

Auditors can review additional audit report considerations and report illustrations in AU-C 805.

AU-C 805 Reporting Considerations

When the auditor audits the entity's complete set of financial statements, as well as audits a specific element of a financial statement, AU-C 805 indicates the auditor should:

- Issue a separate auditor's report and express a separate opinion for each engagement
- Indicate in the report on a specific element of a financial statement:
 - Date of the auditor's report on the complete set of financial statements
 - Nature of opinion expressed on those financial statements

Keep in mind that written management representations should also be obtained that are tailored to the subject matter of the audit, even if a separate management representation letter has been obtained for the audit of the complete set of financial statements



Audit Documentation

If an audit of a complete set of financial statements is also performed, some of the evidence could be cross-utilized between the two engagements

- Consider utilizing a common working paper memo outlining any audit documentation that provides evidence for both audits, such as, documentation of internal controls relevant to a specific element or fraud inquiries
- Consider implications of a misstatement noted in an audit of the complete set of financial statements on the audit of the single statement/element(s)

Don't forget to retain documentation of your analysis of the audit standards deemed not relevant to the audit of the specific statement/element(s) and support for such determination

I am performing an audit of my for-profit client's schedule of HHS awards, and the schedule contains several line items. How do I determine materiality for such an audit?

In this and similar situations, the auditor should consider whether the schedule contains one or several elements. Some ideas to help make that determination include:

- Would the specific element(s) be included within one line item or significant financial statement area or multiple areas in a complete set of financial statements?
- What triggered the audit requirement?
- What are the needs of the users of the statement/element(s)?

I am auditing a SEFA in a program-specific audit. What is my responsibility under AU-C 805 for testing financial statement balances other than those presented on the SEFA?

Paragraph .A18 of AU-C 805 states that when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the single financial statement or the specific element in isolation. Consequently, paragraph .13 requires the auditor to perform procedures on interrelated items as necessary to meet the objective of the audit.

As a result, when an auditor opines on a SEFA in a program-specific audit, it might be necessary to consider any related accruals for liabilities. The nature and extent of any additional testing will depend on the auditor's risk assessment.

Program-Specific Audits

What is a Program-Specific Audit?

An audit of an entity's compliance with compliance requirements subject to audit that are direct and material as they relate to an individual federal program (rather than a single audit, which includes an audit of an entity's financial statements and federal programs)

Subject to:

- GAAS
- GAGAS
- UG

Are Program-Specific Audits Common?

Historically, very few program-specific audits have been performed on non-federal entities:

Year	Program-Specific Audits	Total Submissions	% Program-Specific
2019	184	37,102	0.50%
2020	246	39,041	0.63%
2021	369	42,220	0.87%

For-profit entities may have program-specific audits as well

We expect the numbers to increase:

- Pandemic funding went to many first-time recipients of federal funding that have not historically had other federal funding



When Can a Program-Specific Audit Be Elected?

An auditee expends Federal awards under only one federal program (excluding R&D),
AND

The Federal program's statutes, regulations, or the terms and conditions of the Federal award do not require a financial statement audit of the auditee

**UG § 200.501(c)
Program-specific
audit election**

CAUTION: May not be elected for R&D unless all of the Federal awards expended were received from the same Federal agency, or the same pass-through entity, and that Federal agency or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.

Audit requirements for program specific audits in § 200.507 of the UG

Program-Specific Audit Requirements

2 CFR 200.500-.503(d)	• Purpose, audit requirements, basis for determining federal awards expended and relation to other audit requirements
2 CFR 200.504-.506	• Frequency of audits, sanctions, and audit costs
2 CFR 200.508-.509	• Auditee responsibilities and auditor selection
2 CFR 200.511	• Audit findings follow-up
2 CFR 200.512(e)-(h)	• Report submission
2 CFR 200.513	• Responsibilities (Federal Agencies)
2 CFR 200.516-.517	• Audit findings and audit documentation
2 CFR 200.521	• Management decision
2 CFR 200.507	• Other referenced provisions of 2 CFR 200.507, unless contrary to the provisions of that section, a program-specific audit guide, or program statutes and regulations

What Are the Audit Requirements Under UG § 200.507?

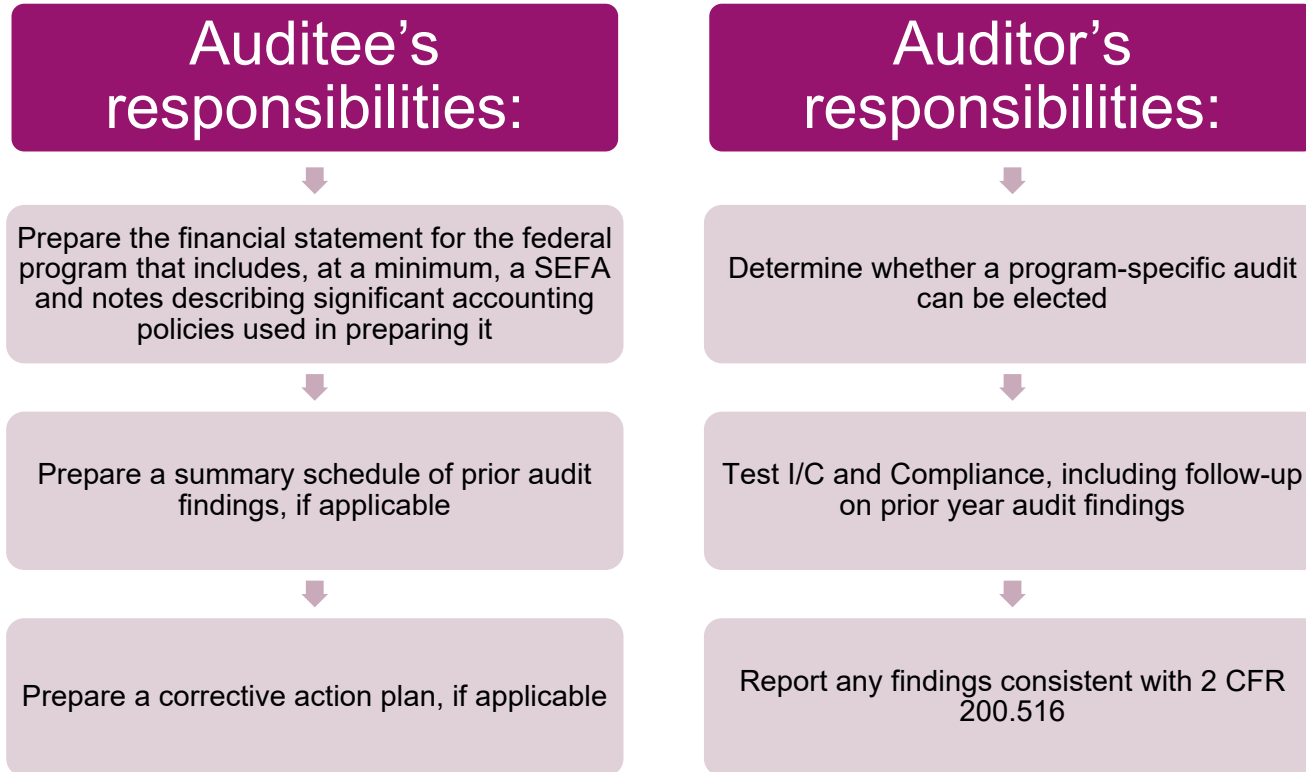
Program-specific audit guide available

- Provides specific guidance to the auditor with respect to internal control, compliance requirements, suggested audit procedures, and audit reporting requirements
- Appendix VI of the Supplement identifies the following Program-Specific Audit Guides
 - [Audit Guides for Student Aid Programs](#)
 - [HUD Consolidated Audit Guide](#)

Program-specific audit guide NOT available

- Basically, same responsibilities for the Federal program as a major program in a single audit
 - Consideration of I/C over compliance for the Federal program
 - Compliance auditing applicable to the Federal program
 - Assessment of reasonableness of the schedule of prior year audit findings
 - Reporting

Program-Specific Audit Responsibilities



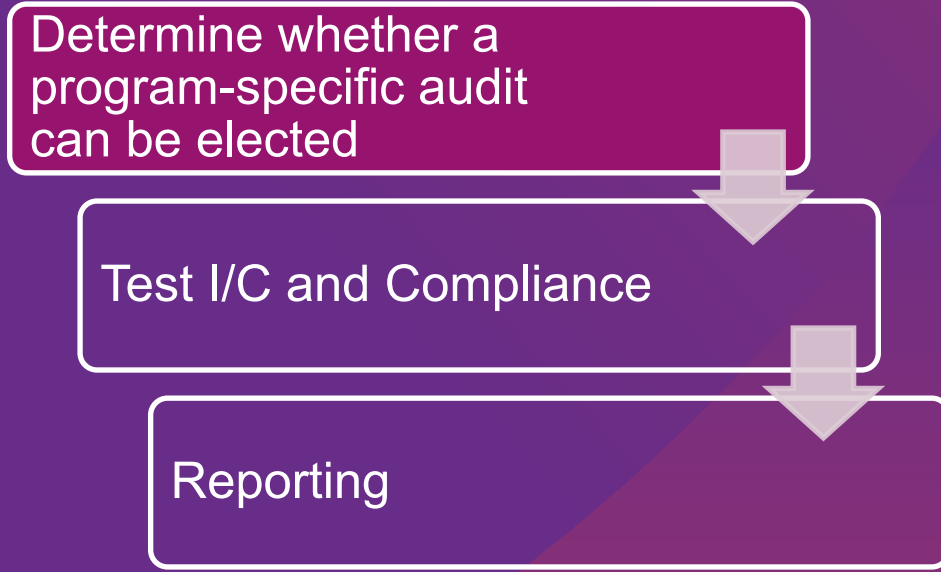
Program-Specific Audit Process

Obtain the SEFA from the client

- Determine if expenditures are \$750K or more
- Verify that expenditures exist for only one federal program
- Verify there are no statutes, regulations or terms and conditions that require a F/S audit of the auditee

If above criteria met, a program-specific audit can be elected

Determine whether a program-specific audit can be elected



```
graph TD; A[Determine whether a program-specific audit can be elected] --> B[Test I/C and Compliance]; B --> C[Reporting];
```

The flowchart consists of three rectangular boxes with rounded corners and white borders, arranged vertically. The first box is dark purple with white text. The second and third boxes are a lighter shade of purple with white text. Large, light-purple downward-pointing arrows connect the first box to the second, and the second box to the third.

Test I/C and Compliance

Reporting

Program-Specific Audit Process

I/C over compliance testing:

- Obtain an understanding of I/C over compliance,
- Plan and perform tests of I/C

Testing of compliance with the federal statutes, regulations, and the terms and conditions of the Federal program:

- Identify the compliance requirements subject to audit,
- Identify the compliance requirements that could have a direct and material effect on the Federal program,
- Test compliance to obtain sufficient, appropriate audit evidence to support the opinion on compliance

Summary schedule of prior year audit findings:

- Assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee,
- Follow-up on prior year findings

Determine whether a program-specific audit can be elected

Test I/C and Compliance

Reporting

Program-Specific Audit Process

- Results of program-specific audit is a reporting package consisting of information prepared by the auditee and the auditor
- See next slide for contents of reporting package
- The audit must be completed, and the DCF and reporting package must be submitted to the FAC within the earlier of:
 - 30 calendar days after receipt of the auditor's report(s)
 - **Or** nine months after end of the audit period, unless a different period is specified in a program-specific audit guide

Determine whether a program-specific audit can be elected

Test I/C and Compliance

Reporting

Reporting Package Content

When a program-specific audit guide is available:

- DCF prepared in accordance with UG §200.512(b)
- Reporting required by the program-specific audit guide

When a program-specific audit guide is not available:

- The financial statement(s) of the Federal program
- A summary schedule of prior audit findings
- A corrective action plan
- The auditor's reports, including schedule of findings and questioned costs
- Electronically submit the DCF to the FAC

Program-Specific Audit vs. Single Audit

	Program-Specific Audit	Single Audit
Criteria for Option	Entity has awards under only one program	Entity has awards under one or more programs
Audit of Entity's Financial Statements	Not required	Required (performed in accordance with GAGAS)
Presentation of Schedule	Schedule of specific element of a financial statement	Schedule of expenditures and federal awards (SEFA)
Auditor Reporting on the Schedule	Opinion on the schedule in accordance with AU-C 805	In addition to the opinion on the F/S, an in-relation-to opinion on the SEFA under AU-C 725
GAGAS Reporting on I/C over Financial Reporting and Compliance and Other Matters	See chapter 14 of GAS-SA Guide	Required (as it relates to the F/S as a whole)
Auditor Opinion on Compliance and Reporting on I/C over Compliance	Required	Required

A Word of Caution

Opinion in program-specific audit states that the schedule is in accordance with GAAP or a special-purpose framework (e.g., cash)

Some of the pandemic programs have presented challenges

- SVOG program allows pre-award costs to be charged which may occur in a prior fiscal year from award date
- Provider Relief Fund links schedule reporting to amounts reported in the PRF reporting portal which may result in prior period amounts

If the schedule is not prepared in accordance with GAAP or a special-purpose framework, consider the following:

- Modify the opinion on the schedule
- Revert to a single audit as the reporting on the schedule is an in-relation-to opinion which permits more reporting flexibility than a full opinion on the schedule



If my client elects a program-specific audit, am I required to issue a Yellow Book report in addition to my compliance opinion?

Per 14.11 of GAS-SA Guide:

“When the financial statement(s) of the program present only the activity of the federal program, the auditor is not required to issue a separate report to meet the reporting requirements of *Government Auditing Standards*. In this situation, the program-specific audit reports in the appendix of this chapter would meet the financial, compliance, and internal control over compliance reporting requirements of both *Government Auditing Standards* and the Uniform Guidance. However, the auditor always has the option of issuing a separate *Government Auditing Standards* report (in addition to the two reports described in paragraph 14.10).”

A NFP client expended \$950,000 of federal awards during the fiscal year. The total expenditures are the aggregate of \$850,000 passed through Local Government A and \$100,000 passed through Local Government B from AL# from 21.027. There are no F/S audit requirements noted.

Can NFP client elect the program-specific audit option?

- Yes, there is only one AL#
- Word of caution: the audit will need to consider the T&C of each award when testing compliance

An entity's year-end is June 30, but the grant term ends on December 31. Can a program-specific audit be performed for the period ended December 31 instead of the entity's year-end?

- No, the program-specific audit election is still subject to the audit requirement under 2 CFR 200.501(a), where a non-federal entity that expends \$750,000 or more during the non-federal entity's fiscal year in federal awards must have a single or **program-specific audit conducted for that year**

Panel Discussion: What aspect of performing a program-specific audit has been the most challenging in your experience?



Auditing a program that is not included in the OMB *Compliance Supplement*

Supplement – Part 7

Provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included in the Supplement

The auditor must follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements that could have both a **direct and material** effect on the program



2 CFR
200.514(d)(3)

What Does and Does not Apply When a Program is not in the Supplement?

Supplement sections used by auditors in designing the audit approach for programs not in the Supplement

- Part 1 – Background, Purpose, and Applicability (except for the Safe harbor status guidance)
- Part 3 – Compliance Requirements
- Part 6 – Internal Control
- Part 7 – Guidance for Auditing Programs not Included in this Compliance Supplement
- Appendices III, IV, and V

Helpful Supplement sections that do not apply:

- Safe harbor status from Part 1
- Matrix of requirements subject to audit from Part 2
- Six requirement mandate

Focus

A federal program may have many compliance requirements



Generally, there are only a few key compliance requirements that could have a direct and material effect on the program



The single audit process is not intended to cover every compliance requirement



The auditor's focus must be on the 12 types of compliance requirements included in the Part 3 of the Supplement



5 Steps for Identifying Compliance Requirements

1

- What are the program objectives, program procedures, and compliance requirements for a specific program?

2

- Which of the compliance requirements could have a direct and material effect on the program?

3

- Which of the compliance requirements are susceptible to testing by the auditor?

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

5

- For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

1

- What are the program objectives, program procedures, and compliance requirements for a specific program?

- Discuss the program with auditee, federal agency, PTE
- Review grant contract / agreement, referenced laws and regulations, etc.
- Check out information on sam.gov and / or the agency's website

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

2

- Which of the compliance requirements could have a direct and material effect on the program?

- Material – qualitative and quantitative – does the requirement affect a large part of the federal program?
- Visibility and sensitivity of the program
- Noncompliance that could likely result in questioned costs
- Federal agency or PTE response or potential consequences
- Similar to approach taken on programs included in the Part 4

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

3

- Which of the compliance requirements are susceptible to testing by the auditor?

- Requirements that are susceptible to testing by auditor:
 - Evaluated against objective criteria
 - Have sufficient basis for recognizing noncompliance
 - Practical to test
 - Testing adds value
- Avoid supplanting agency's "normal" verification

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- The best practice is to follow a matrix of compliance requirements
- Must use the 12 types of compliance requirements to identify which requirements applicable to the program are subject to testing
- Not all of them will apply to all programs
- Certain compliance requirements almost always apply

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- A. Activities Allowed or Unallowed
 - **Almost always** applies to federal programs
- B. Allowable Costs/Cost Principles
 - **Almost always** applies (charges for goods or services)
 - May not apply if the program only involves benefits to eligible recipients, with no:
 - Administrative costs
 - Purchases of goods or services (including salaries and overhead)
 - Allocated costs

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- C. Cash Management
 - **Almost always** applies to federal programs
- E. Eligibility
 - **Applies to most** federal programs **that provide benefits** to individuals, groups of individuals, or make subawards
 - Review the program laws, regulations, and provisions to determine the specific requirements
 - Involves not only individuals, but also possible groups of individuals, geographical areas, or subrecipients

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- F. Equipment and Real Property Management
 - **Applies** to federal programs that **allow for purchase of equipment or real property**
- G. Matching, Level of Effort, Earmarking
 - **Not universal** – if applicable, would be specific to the federal program and often the non-federal entity
 - Review the program laws, regulations, and provisions to determine the specific requirements

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- H. Period of Performance
 - **Almost always** applies to federal programs
 - Carry-over of unused funds to future funding periods
 - Whether pre-award costs are allowable, to what extent, and under what circumstances
- I. Procurement and Suspension and Debarment
 - **Applies** any time the entity **procures goods or services**
 - Suspension and debarment **applies to certain procurements** and to **all subawards**

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- J. Program Income
 - **Applies** to programs that **generate** program income
- L. Reporting
 - **Almost always** applies to federal programs
 - The standard financial reports are described in Part 3
 - The federal agency or the PTE may have developed its own forms for financial reporting
 - FFATA reporting

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

- M. Subrecipient Monitoring
 - **Applies** when federal awards are **passed through** to a subrecipient
- N. Special Tests and Provisions
 - Compliance requirements that **do not fit** the description of the other types of compliance requirements
 - Most difficult type of compliance requirement to identify

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

4

- Into which of the 12 types of compliance requirements does each compliance requirement fall?

Remember:

- Must consider Part 3 audit objectives
- If not testing a compliance requirement, the auditor must conclude that:
 - The requirement either **does not apply** to the particular non-federal entity, or
 - Noncompliance with the requirement **could not have a direct and material effect on a major program**

Don't forget Internal Controls

Supplement – Part 7



5 Steps for Identifying Compliance Requirements

5

- For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?

Use the guidance in **Part 3**:

- Review the **contract** and **grant agreements** and referenced **statutes** and **regulations** to identify the compliance requirements
- **Inquire** of the non-federal entity to help identify and understand any Special Tests and Provisions
- Identify any **additional** compliance requirements that are not based in statute or regulation, which could be material to a major program:
 - Requirements agreed to as part of audit resolution of prior audit findings

Supplement – Part 7



**I am auditing a program that is not in the Supplement.
Can I identify the six most important compliance
requirements to the program and stop?**

- No. For programs not included in the Supplement, the OMB mandate adopted in 2019 that required each federal agency to limit the number of compliance requirements subject to audit to six does not apply. According to Part 7 of the Supplement, the auditor must use the 12 types of compliance requirements listed for identifying which requirements applicable to the program are subject to testing.

The program I'm auditing is not in the Supplement but is really similar to two other programs that my client has. Can I assume the direct and material compliance requirements will be the same as the other two programs and not perform the analysis of all 12 requirements?

- No. For programs not included in the Supplement, The auditor must use the 12 types of compliance requirements listed for identifying which requirements applicable to the program are subject to testing. Even though programs might appear similar, specific terms and conditions included in the statutes, grant agreements, and contracts might be different.

My client has a new program, a program section for which was not included in the Supplement effective for the year I have to audit. The next year's Supplement did include the program section for this program. Can I use the next year's Supplement to identify which compliance requirements would be subject to audit?

- Technically no, but there is nothing to preclude an auditor from using the next year's Supplement section as a resource when developing the audit approach using Part 7 of the Supplement. Keep in mind that the six-requirement mandate does not apply, so an auditor will still have to document that all 12 types of compliance requirements were evaluated for identifying what is subject to audit. But the new Supplement section gives key information about what the agency thinks is important. Note: Some federal agencies include guidance when this situation arises (e.g., see SVOG program section in the 2022 Supplement).

A Primer on Compliance Examination Engagements

Compliance Examinations Background

Two federal agencies have offered alternatives to full single audits that involve compliance examination engagements:

	CSLFRF	SVOG
AL#	21.027	59.075
Funder	Treasury	SBA
Purpose	Direct payments to states and local governments to support their response to and recovery from the COVID-19 public health emergency	Emergency assistance for eligible venues affected by COVID-19
Examination eligibility	Certain eligible recipients	For-profit recipients

Compliance Examinations Requirements

Compliance examinations are subject to the following:

- AICPA Statements on Standards for Attestation Engagements (AT-C section 315, [Compliance Attestation](#)); and
- GAGAS (chapter 7, *Standards for Attestation Engagements and Reviews of Financial Statements*, focuses on attestation engagements)

Many practitioners are not familiar with the attestation standards of the AICPA or related GAGAS rules

Careful consideration of engagement documentation is needed – most third-party practice aids do not have programs and checklists for this type of the engagement

- GAQC practice aids may be useful in developing your testing approach, for example, [CSLFRF Alternative Compliance Examination Engagement](#), includes a primer on compliance examination engagements

Compliance Examination vs. Single (or Program-Specific) Audit

- A financial statement audit is not required
- A SEFA is not prepared, and the practitioner opines on the compliance or management's assertion about compliance
- The requirements for internal control in UG section 200.514(c) are not required for this engagement
 - AT-C 315.15 only requires to obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement
- Involves testing of the compliance requirements, but they maybe differently and / or more narrowly scoped than those in a full single audit
- The engagement reporting is simplified

AICPA Attestation Standards

AT-C section 315, [Compliance Attestation](#), is the specific standard that addresses compliance examination engagements

- The practitioner is also required to comply with AT-C sections 105, *Concepts Common to All Attestation Engagements*, and 205, *Assertion-Based Examination Engagements*

AT-C 315 defines **compliance examination engagement** as the one requiring the practitioner to obtain **reasonable assurance** about whether an entity complied with specified requirements, in all material respects, and to express **an opinion on compliance** in the resulting practitioner's examination report

The term “**practitioner**” is used in the AICPA Attestation Standards to differentiate from the term “**auditor**” used in GAAS. GAGAS does not differentiate between the two terms.

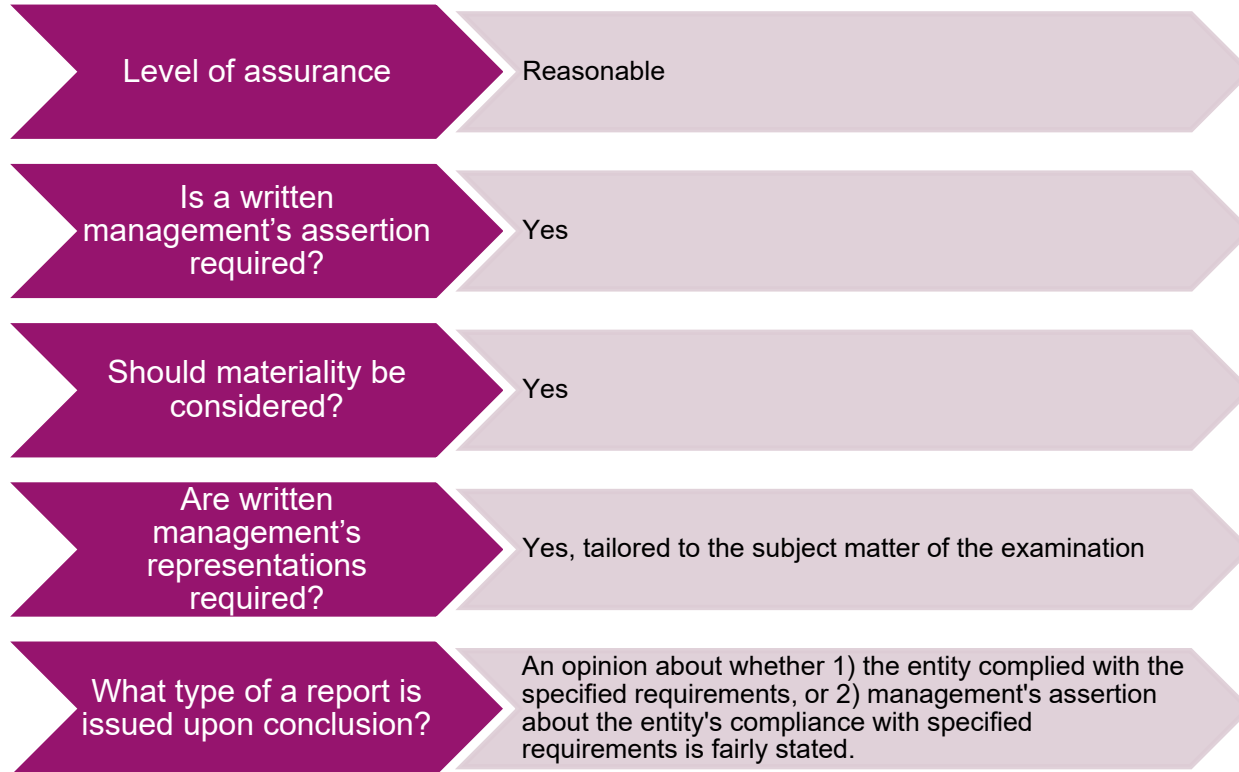
Preconditions for Examination Engagements

In order to accept an examination engagement, the practitioner should determine that:

- The practitioner is independent of the entity
- The subject matter is appropriate
- The criteria to be applied is suitable and will be available to the intended users
- The practitioner expects to be able to obtain the evidence needed to arrive at the practitioner's opinion, conclusion, or findings
- management accepts responsibility for the entity's compliance with specified requirements and the entity's internal control over compliance
- management evaluates the entity's compliance with specified requirements

Refer to AT-C 105, 205, and 315 for more in-depth information on the pre-conditions for a compliance examination engagement

Examination Engagements Requirements



Examination Engagements Procedures

Obtain an understanding of the specified requirements

- Consider laws, regulations, etc., as well as knowledge from prior engagements and regulatory reports
- Perform inquiry with appropriate individuals within the entity

Consider materiality when establishing the overall engagement strategy

Obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements

- Use such knowledge in identifying types of potential material noncompliance, considering factors that affect the risk of material noncompliance, and designing appropriate tests of compliance

Consider whether the entity operates in several components and tailor your risk assessment and procedures accordingly

Design and perform procedures responsive to the risks of material noncompliance and obtain reasonable assurance to support the opinion



GAGAS Requirements

YB Chapter 7 contains the relevant requirements for examination engagements subject to GAGAS

Chapters 1 through 5 of the YB provide general requirements for complying with GAGAS in the areas of:

- Ethics
- Independence
- Professional judgment
- Competence and CPE
- Quality control and peer review

Practitioners should take care to familiarize themselves with the YB detailed guidance related to these requirements

April 2021

GOVERNMENT AUDITING STANDARDS

2018 Revision

Technical Update April 2021

Additional GAGAS Requirements

Previous engagements

Evaluate whether the entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a significant effect on the subject matter or an assertion about the subject matter

Use this information in risk assessment and determining the nature, timing, and extent of current work

Investigations and legal proceedings; Noncompliance

Evaluate the impact on the engagement of any actual or pending investigations or legal proceedings

Laws and regulations may require auditors report indications of certain types of fraud or noncompliance to outside parties

Audit documentation

Document supervisory review of the evidence that supports the findings, conclusions, and recommendations before the report release date

Document any departures from GAGAS and the effect on the engagement and conclusions

Make examination team and documentation available upon request to other auditors

GAGAS
incorporates
AICPA
Attestation
Standards by
reference and
adds other
requirements

GAGAS Examination Reporting Requirements

Additional GAGAS requirements relate to:

- Stating compliance with GAGAS in the examination report
- Reporting on internal control (reporting required when significant deficiencies or material weaknesses are identified); compliance with provisions of laws, regulations, contracts, and grant agreements; and instances of fraud
- Presenting findings in the examination report
- Obtaining and reporting the views of responsible officials
- Reporting confidential or sensitive information
- Distributing reports

Don't forget the required findings elements under GAGAS:

- Criteria
- Condition
- Cause
- Effect or potential effect
- Recommendation

Scope of the CSLFRF Alternative Compliance Examination Engagements

Practitioner tests narrowly scoped compliance requirements relating to A/B - Activities Allowed or Unallowed/Allowable Costs and Cost Principles

- Guidance was introduced as a technical update to the 2021 Supplement, is included in the 2022 Supplement, and is expected to continue in the 2023 Supplement

Reporting is due within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period

- Treasury guidance, [SLFRF Alternative Compliance Examination Engagement Report User Guide](#), provides instructions on how to submit completed engagements

Check out the comprehensive GAQC Practice Aid, [CSLFRF Alternative Compliance Examination Engagement](#), for detailed information on recipient eligibility, scope and performance, as well as illustrative reports for this type of an engagement

For more information on CSLFRF, check out the GAQC archived webcast, [The Coronavirus State & Local Fiscal Recovery Funds Program](#)

Scope of the SVOG Compliance Examination Engagements

Practitioner tests narrowly scoped compliance requirements relating to

- A – Activities Allowed or Unallowed
- B – Allowable Costs and Cost Principles
- H – Period of Performance

The submission deadline is the **later** of 9 months after the release of the SVOG for-profit guidance (*released July 22, 2022*) or 9 months after the end of the entity's fiscal year

- The SBA will utilize an Audit Reporting Action Item to collect audit report packages from for-profit entities

Stay tuned for the upcoming GAQC webcast with in-depth information about the SVOG program

Resources

Audits of Single Financial Statements/Element(s) Resources

AU-C Section 805, [Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement](#)

[Government Auditing Standards, 2018 Revision; Technical Update April 2021](#)

2 CFR Part 200, [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)

GAQC article, [Governmental Audits of Single Financial Statements or Elements](#)

GAQC Practice Aids:

- [Government Auditing Standards Primer](#)
- [Auditing For-Profit Entities with PRF and Other HHS Program Funding](#)

Program-Specific Audit and Part 7 of the Supplement Resources

AU-C Section 935, [Compliance Audits](#)

2 CFR 200.501, [Audit Requirements](#)

2 CFR 200.507, [Program-Specific Audits](#)

Chapter 14, *Program-Specific Audits*, of the [AICPA GAS-SA Guide](#)

[GAQC illustrative UG auditor's reports for a program-specific audit](#)

Part 7, "[Guidance for Auditing Programs Not Included In This Compliance Supplement](#)" section of the 2022 Supplement

[GAQC OMB Compliance Supplement Resource Center](#)

Compliance Examinations Resources

[AICPA Statements on Standards for Attestation Engagements](#)

[AT-C 9205, Examination Engagements: Attestation Interpretations of Section 205 - Reporting on Attestation Engagements Performed in Accordance With Government Auditing Standards](#)

[Government Auditing Standards, 2018 Revision; Technical Update April 2021](#)

GAQC Practice Aid, [CSLFRF Alternative Compliance Examination Engagement](#)

GAQC archived webcast, [The Coronavirus State & Local Fiscal Recovery Funds Program](#)

Treasury [SLFRF Alternative Compliance Examination Engagement Report User Guide](#)

[SBA's SVOG Web Page](#)

[SVOG Audit and Attestation Requirements for For-Profit Recipients](#)

Archived SBA Webcast, [Audit Requirements for For-Profit Entities](#)

GAQC Web Site (www.aicpa.org/GAQC)

Key areas to check out and/or bookmark:

- AICPA Audit Guide, [Government Auditing Standards and Single Audits](#)
- [GAQC COVID-19 Resources](#)
- [Archived GAQC Alerts](#)
- [Archived GAQC Web events](#), including Single Audit Fundamentals series and other webcasts
- [Illustrative Auditor's Reports](#)
- [Single Audit Resources](#)



Questions?

Panel discussion – What do you think are the most important things that participants should take away from today's event?



How do I get my CPE certificate?

Access your CPE certificate by clicking the orange “CPE” icon

- If at the end of this presentation you are eligible for but unable to print your CPE certificate, please log back into this webcast in 24 hours and click the orange “Get CPE” button. Your certificate will still be available.
- If you need assistance with locating your certificate, please contact the AICPA Service Center at 888.777.7077 or service@aicpa.org.



Thank you