Governmental Audit Quality Center

AICPA & CIMA

Together as the Association of International Certified Professional Accountants®

2024 Governmental Audit Quality Center Annual Update Webcast

May 9, 2024

What We Will Cover

- Information to help you plan your 2024 audits
- A high-level briefing on the activities of standard-setting bodies and regulators
- Other updates, best practices, and tips
- Resources to help you maintain or improve your audit quality

Your attendance at this Webcast meets the GAQC membership requirement
CPE REBROADCAST DATES: 6/21/24 and 9/6/24

The Webcast will be archived on the GAQC Web site (no CPE)

Encourage staff to view a CPE rebroadcast or to view the no-CPE archive

Today's Speakers

Lindsey Oakley, CPA
Forvis

Blaine Jasper, CPA
Baker Tilly

Michelle Watterworth, CPA
Plante Moran

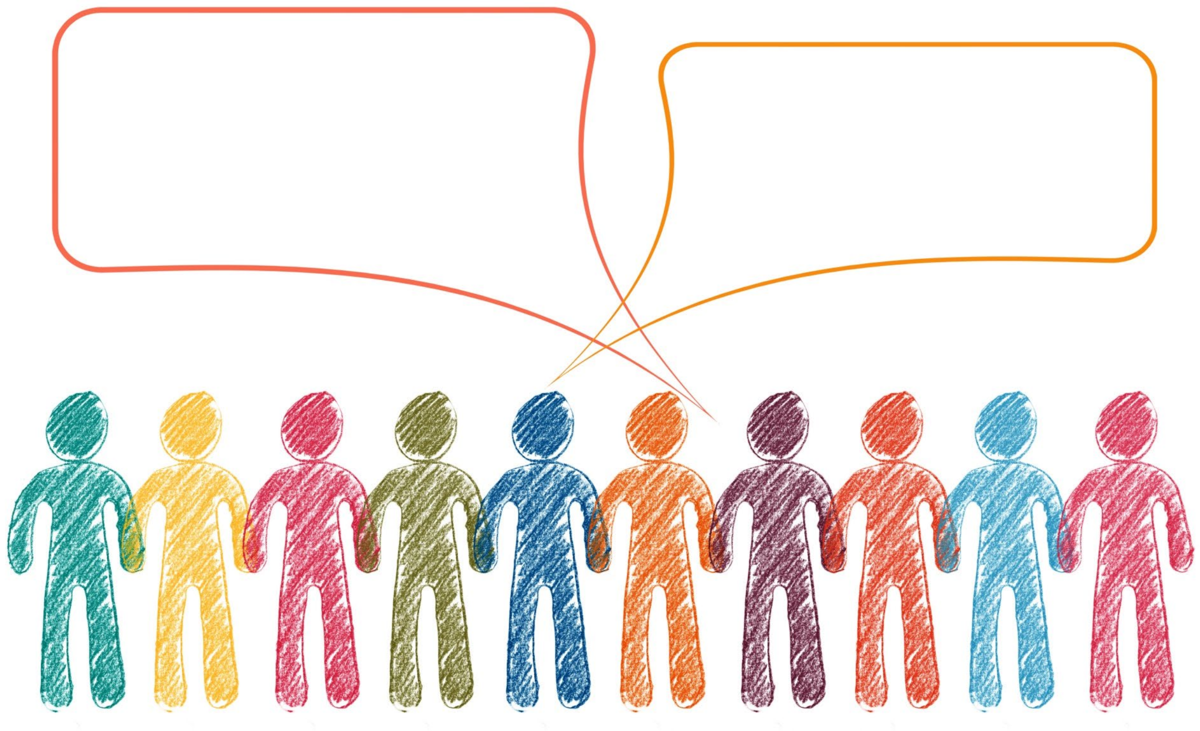
Terminology and Abbreviations

AICPA	Association of International Certified Professional Accountants	GASB	Government Accounting Standards Board
ACEE	Alternative Compliance Examination Engagement	GSA	General Services Administration
ALN	Assistance Listing Number	HHS	Department of Health and Human Services
ASB	Auditing Standards Board	HUD	Department of Housing and Urban Development
ASU	Accounting Standards Update	IIJA	Infrastructure Investment and Jobs Act
CECL	Current Expected Credit Losses	IT	Information Technology
CFR	Code of Federal Regulations	JofA	Journal of Accountancy
COSO	Committee of Sponsoring Organizations of the Treadway Commission	NOCLAR	Noncompliance with Laws and Regulations
COVID-19	Coronavirus Disease	NFP	Not For Profit
CPA	Certified Public Accountant	OIG	Office of Inspector General
CPE	Continuing Professional Education	OMB	Office of Management and Budget
CSLFRF	Coronavirus State and Local Fiscal Recovery Funds	PCAOB	Public Company Accounting Oversight Board
DCF	Data Collection Form	PEEC	Professional Ethics Executive Committee
EAQ	Enhancing Audit Quality	PRF	Provider Relief Fund
ED/Education	Department of Education	PTE	Pass-Through Entity
ERA	Emergency Rental Assistance	PV/ITC	Preliminary Views/Invitation to Comment

Terminology and Abbreviations

ESF	Education Stabilization Fund	QCR	Quality Control Reviews
ET	Ethics	QM	Quality Management
F/S	Financial Statements	SAO	State Audit Organization
FAC	Federal Audit Clearinghouse	SAS	Statement on Auditing Standards
FAQ	Frequently Asked Questions	SEFA	Schedule of Expenditures of Federal Awards
FASB	Financial Accounting Standards Board	SFA	Student Financial Assistance
FEMA	Federal Emergency Management Agency	SKE	Skills, Knowledge or Experience
FDTA	Financial Data Transparency Act	SLG	State and Local Government
FY	Fiscal Year	SOC	System and Organization Controls
GAAP	Generally Accepted Accounting Principles	SQCS	Statements on Quality Control Standards
GAGAS	Generally Accepted Government Auditing Standards	SQMS	Statements on Quality Management Standards
GAO	Government Accountability Office	SSAE	Statement on Standards for Attestation Engagements
GAQC	Governmental Audit Quality Center	SSARS	Statement on Standards for Accounting and Review Services
GAS	Government Auditing Standards	TQA	Technical Questions and Answers
GAS-SA Guide	AICPA Audit Guide, Government Auditing Standards and Single Audits	UEI	Unique Entity Identifier
		UG	Uniform Guidance

Panel Discussion - What key topics will you be discussing today?



Annual Update

GAQC Update

Technical Update

SLG and NFP F/S Audit Developments

GAQC & AICPA Resources

GAQC Update

Total membership 1,887 firms and SAO members as of May 1st

- Approximately 1,855 member firms representing 50 states, District of Columbia and Puerto Rico
- 32 SAO members

Significant activity this past year

- Advocacy (OMB *Compliance Supplement*, Uniform Guidance, FAC transition to GSA, SFA matters, GASB activities, informal interactions with various agencies)
- Numerous alerts to members and Web events
- Tools and resources, including several for new auditors and auditees

Use your membership!

Watch for *GAQC Alerts*

Use GAQC resources

Attend relevant Web events

Access all GAQC Archived Web Events

AICPA GAQC Member

2024-2025 GAQC Executive Committee:

Lindsey Oakley, FORVIS, Chair
Heidi Bresler, The Bonadio Group
Monique Booker, SB & Company
Kelly Chamberlin, Deloitte & Touche LLP
John D’Amico, CBIZ MHM
Christina Dutch, PWC
Tasha Repp, Moss Adams
Blaine Jasper, Baker Tilly US, LLP
Michael Johns, CliftonLarsonAllen LLP
Angela Hillestad, Eide Bailly LLP
Jennifer Katz, RSM US LLP
Sadie Mayle, Plante Moran
Lee Klumpp, BDO
Jeff Markert, KPMG LLP
Hope Pendergrass, Mauldin & Jenkins
Jeremy Robinson, Ernst & Young LLP
George Strudgeon, Auditor of Public Accounts, Commonwealth of Virginia

Thanks also to our outgoing member!

Lindsey Kennimer - Snow, Garrett & Williams

20 Years Dedicated to Governmental Audit Quality!

Milestones

- Council approved concept in 2003
- Center launched September 2004
- SAO membership began in 2009

Looking Forward

- Focus on advocacy efforts
- Find additional ways to expand our offerings and provide best practices
- Continue to be a place for members to turn for guidance and support when performing governmental audits

Effect of Current Environment on Governmental Audits

Current Environment - Setting the Stage - Single Audits

Historic federal funding continues resulting in increased risk

- New IIJA programs and funding added to existing programs
- COVID-19 funding still in play but winding down
- Some programs will still be considered “higher risk” in 2024 audits which impacts major program determination
- Federal focus on oversight, accountability, and transparency

New Uniform Guidance regulation

FAC transition to GSA resulting in new submission approach and need for staff education

Staffing resource challenges

Current Environment - Setting the Stage – F/S Audits

- Funding cliffs due to COVID-19 funding winding down
- Revenue recognition considerations related to grant funds
- Accounting estimates
- New accounting and AICPA auditing standards
- Changing economic and legal landscape
- Staffing resource challenges

Be Mindful of the Impact of Staff Resource Issues on Governmental Audits

Governmental and NFP clients

- Challenges with internal control
- Segregation of duties issues
- Accounting and federal funding expertise lacking

Auditors

- Ensuring competency on engagements
- Potential independence issues (e.g., performing management functions)
- Workload compression for staff having governmental expertise/delayed audits
- Issues with client readiness, delayed engagements and meeting deadlines

Public Sector CPA Resources Project

Part of AICPA pipeline effort focusing specifically on CPA resources in government and the CPA firms that audit them

Joint effort with the National Association of State Auditors Comptrollers and Treasurers

Information gathering efforts complete (e.g., focus groups, surveys)

Final report including findings and recommendations expected in summer 2024

Annual Update

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Technical Update

SLG and NFP F/S Audit Developments

GAQC & AICPA Resources

Overview of Technical Updates

- AICPA (EAQ, Peer Review, Ethics, ASB)
- GAO (Yellow Book)
- Single audits developments (*Compliance Supplement*, pandemic funding, FEMA, HHS, SFA, common quality deficiencies, FAC, etc.)
- For-profit entities (pandemic and infrastructure funding, HUD, Education)

AICPA EAQ - 2024 Areas of Focus

Risk assessment

Quality management

Single audit

SOC 2 Engagements

Technology-enabled auditing

AICPA Peer Review - Checklists of Interest to Governmental Auditors

Section	Title	Date
20,500	Governmental Audit (F/S audit)	05/2023
20,600	Not for Profit Audit (F/S audit)	05/2023
22,100	Single Audit (Parts A and B)	4/2022*
4,400	2018 Yellow Book - Quality Control	10/2020
22,080	HUD (related to for-profit audits)	10/2021
22,110	2018 Yellow Book - Audits	10/2020
22,120	Yellow Book - Attestation Engagements and Reviews	10/2020

Note: Use the checklists as part of your quality control!

Access AICPA peer review checklists.

** Update expected in late May 2024*

AICPA - Peer Review - Resources

Available on
www.aicpa.org/interestareas/peerreview.html

- Peer Review Standards
- Reviewer alerts
- Peer Review Prompts newsletter
- Peer Review FAQs
- Reviewer training
- Examples of matters noted in peer reviews

AICPA Ethics - Recent Issuances

NOCLAR

- ET 1.180.010, 2.180.010, 1.000.020, 2.000.020
- Effective June 30, 2023
- Official release
- JofA article

Fees

- ET 1.230.030, 1.230.040, 1.210.010, and 1.224.010
- Two new and two revised interpretations
- Effective January 1, 2025
- Official release
- JofA article

Compliance Audits

- ET 0.400
- June 15, 2023
- Official release
- JofA article

Public Interest Entities

- ET 0.400
- Effective December 15, 2023, and December 15, 2024
- Effective January 1, 2025
- Official release
- JofA article

AICPA Ethics - NOCLAR

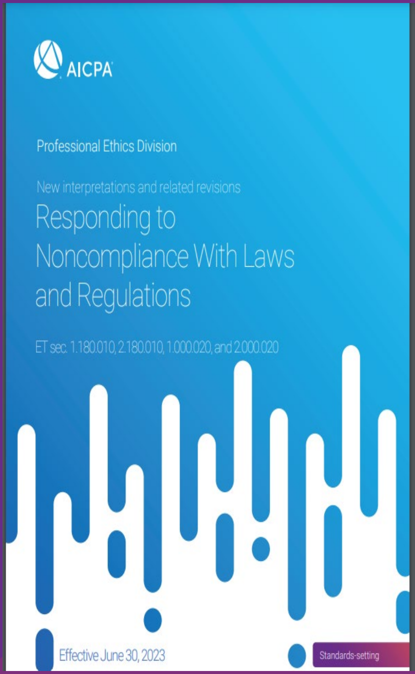
Establishes a member's responsibilities when encountering noncompliance or suspected noncompliance with laws and regulations

Guides the member in evaluating the implications of a matter and the possible courses of action when responding to it

Provides separate guidance for members in business; members providing financial statement audit or review services; and members providing services other than a financial statement audit or review service.

Access interactive NOCLAR tool issued by AICPA Ethics team

Effective June 30, 2023, with early implementation allowed.



AICPA Ethics - Compliance Audits

New definitions: 1) Compliance audit; and 2) Compliance audit client (access related Q&As)

Revision to financial statement attest client - **removes** the requirements to:

1) Apply the "Independence Rule" (ET sec. 1.200.001) with respect to any entity that meets both of the following
   a) Not subject to compliance audit procedures and
   b) Includes amounts in the schedule or statement that are trivial and clearly inconsequential; and
2) Apply the Affiliates rule (ET sec 1.224) with respect to a compliance audit client

COMING SOON!

Compliance Audits:

Independence Navigator

PEEC Projects

Effective for compliance audits commencing on or after June 15, 2023, with early implementation allowed

AICPA Ethics - Other Resources

Online Ethics Library

- Access the library at: https://pub.aicpa.org/codeofconduct/Ethics.aspx
  - Professional Code of Conduct
  - Ethics Questions and Answers
  - Basis for Conclusions (related to Ethics interpretations)
  - Enforcement Information
  - Plain English Guide to Independence
  - Case Studies

Other Ethics Resources

- AICPA Professional Ethics Web page
- "Ethically Speaking" Podcasts
- Summary of Common Deficiencies in Governmental and NFP audits
- Tool - Independence Rules Comparison: AICPA and *Government Auditing Standards*
- Interactive Decision Tree - Responding to Noncompliance with Laws and Regulations

AICPA ASB - Recent Auditing Standards

SAS No:	Description:	Effective for audits of F/S (or compliance) for:
143	Auditing accounting estimates and related disclosures	Periods ending on or after December 15, 2023
144	Use of specialists and use of pricing information	
145	Risk assessment	
146	Quality Management for Engagements	Periods beginning on or after December 15, 2025
147	NOCLAR	Periods beginning on or after June 30, 2023
148	Amendments to AU-C 935, *Compliance Audits*	Split to be consistent with SAS 142 (Audit Evidence) and SAS 145, depending on specific amendment
149	Group Audits	Audits of group financial statements for periods ending on or after December 15, 2026.

Pink = Effective; Gray = Not Yet Effective

SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*

Explains the nature of accounting estimates and the concept of estimation uncertainty

Address scalability of the SAS for all types of accounting estimates, from relatively simple to complex

Includes risk assessment requirements specific to estimates and addresses the increasingly complex business environment and complexity in financial reporting frameworks

Addresses the exercise of professional skepticism when auditing accounting estimates

Read relevant “At a Glance” article

Intended to enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates

SAS No. 144, *Use of Specialists and the Use of Pricing Information Obtained from External Information Sources*

Amends existing auditing standards on audit evidence, auditing estimates, and using the work of specialists

Audit evidence standard revised to add PCAOB guidance on evaluating information provided by pricing services, including factors to consider in deciding whether information from multiple services is appropriate

Read relevant "At a Glance" article.

SAS 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

Will enable auditors to appropriately address the following:

- Understanding the entity's system of internal control, specifically, relating to the auditor's work effort to obtain the necessary understanding
- IT considerations, including addressing risks arising from entity's use of IT
- Determining risks of material misstatements, including significant risks

Summary of Notable Changes

New and revised risk assessment terminology and concepts, including significant risks

Clarified work effort related to understanding each of the components of internal control, including enhanced guidance on information technology

Focus on scalability (exercise professional judgment in applying the requirements, considering the complexity of the entity)

Several new requirements:

- Separately assess inherent risk and control risk
- “Maximum” control risk when controls are not tested for operating effectiveness
- Risk assessment “stand-back”

Clarified requirements related to evaluating the design and determining the implementation of controls

New and Revised Risk Assessment Terminology and Concepts

Inherent risk factors

Spectrum of inherent risk

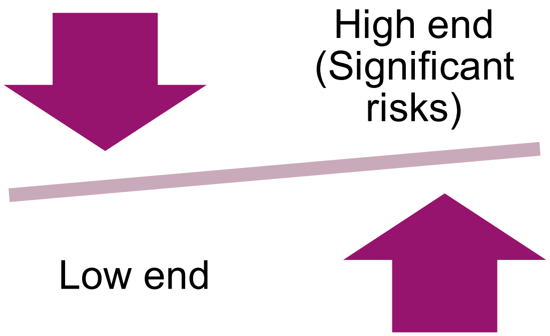
Significant class of transactions, account balance, or disclosure

Relevant assertion and reasonable possibility

Significant risk

Spectrum of Risk

Concept of <u>spectrum of risk</u>



Amended definition of <u>significant risks</u>

Significant risk: An identified risk of material misstatement:

- For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
- That is to be treated as a significant risk in accordance with the requirements of other AU-C sections.

SAS No. 148, *Amendments to AU-C section 935*

Amends AU-C section 935, *Compliance Audits*, to update the appendix "AU-C Sections That Are Not Applicable to Compliance Audits"

Conforms AU-C section 935 to reflect the issuance of:

- SAS No. 142, *Audit Evidence* (AU-C section 500)
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C section 315)

Identified controls for which the auditor evaluates design and determines implementation differ from financial statement audit

- Do not include controls over significant risks
- Include controls required to be tested for operating effectiveness by the governmental audit requirement

Effective dates align with SAS 142 and SAS 145; Changes in Appendix are already effective (to align with SAS 142) and the rest of the standard is effective for audits of periods ending on or after December 15, 2023.

SAS No. 148 - Reminders, Clarifications, and Changes Regarding Risk Assessment

For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess inherent risk by assessing the likelihood and magnitude of noncompliance

For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess control risk based on the auditor's understanding of controls and the auditor's plan to test the operating effectiveness of controls.

- If controls are not tested for operating effectiveness, control risk is at the maximum level

Document identified and assessed risks and rationale for significant judgments

Refer to the Appendix of AU-C 935 to understand requirements in GAAS that do not apply to compliance audits.

Risk Assessment - Help for Auditors

Audits of SLG F/S

- 2023 edition of the AICPA SLG Guide included both guidance relevant to the extant risk assessment standards and a new chapter addressing the new risk assessment standards
- 2024 edition will include additional changes throughout to address updated risk assessment terminology.
- Listen to 2-hour GAQC Web event, *Implementing the Risk Assessment Standards in Your State and Local Government Financial Statement Audits*

Audits of NFP F/S

- 2024 edition of the AICPA NFP Guide will include guidance on the new risk assessment standards.

Single Audits

- 2024 edition of the AICPA GAS-SA Guide will address needed changes for risk assessment.
  - Changes will closely align to revisions in SAS No. 148
  - Primarily will impact chapters on single audit (chapters 6, 9, 10, and 11)

Panel Discussion - What have you experienced in adopting SAS No. 145 in your governmental, NFP, and single audit practices and what tips do you have for members?

SAS No. 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*

Before Engagement Acceptance

Auditor is required to request management to authorize the predecessor auditor to respond fully to auditor's inquiries.

Does management authorize the predecessor auditor to respond?

Yes

<u>New requirement</u>
Auditor required to inquire of predecessor regarding identified or suspected fraud and matters involving NOCLAR

<u>New requirement</u>
Predecessor auditor required to respond fully and timely and to indicate if the response is limited

Evaluate the predecessor auditor's response and consider the implications if there is no or limited response in determining whether to accept the engagement

No

Auditor required to inquire about the reasons and consider the implications of refusal in deciding whether to accept engagement

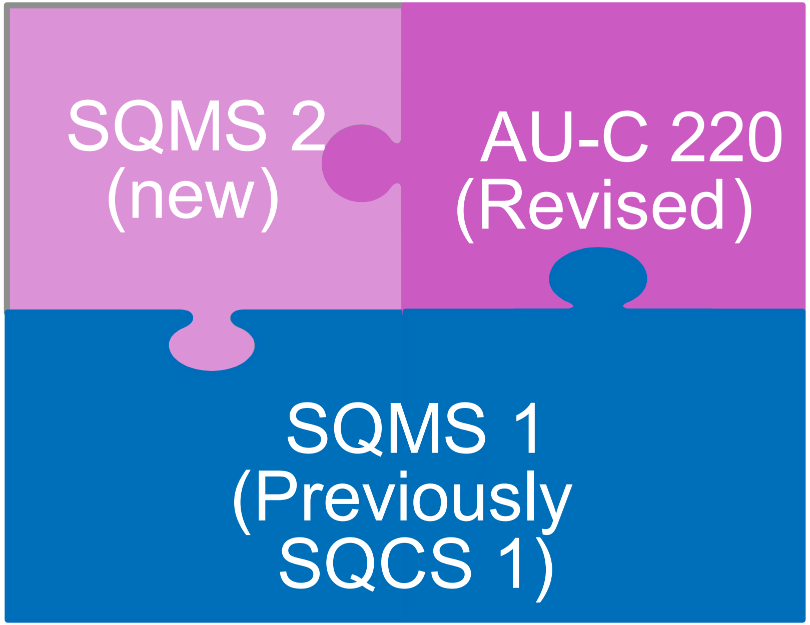
Statements on Quality Management Standards

SQMS 1, *A Firm's System of Quality Management*

SQMS 2, *Engagement Quality Reviews*

SAS No. 146, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards* (AU-C section 220)

Related conforming amendments (SQMS 3)



Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS.

SQMS 1 - Key Changes

New **risk-based approach** focused on **quality management tailored** to the firm's **circumstances**

More robust leadership and governance requirements

New! Requirements for networks and service providers

Revised components of the system of quality management, including information and communication

Enhanced monitoring and remediation process

Understanding Effective Dates

Now

Dec. 15, 2025

Dec. 15, 2026

Operate extant system of quality control

Perform risk assessment and gap analysis, and design and implement new responses

Consult with your peer reviewer.

Early adoption permitted if all three standards are implemented at the same time.

Operate the new system of quality management

Perform the first annual evaluation of the system of quality management (SQMS No. 1)

Perform EQ reviews when required by firm policy in accordance with SQMS No. 2 starting with
- Calendar-year 2026 financial statement audits or review engagements
- Other engagements that begin on or after Dec. 15, 2025

Apply the requirements of the QM SAS starting with calendar-year 2026 financial statement audits

Implementing SQMS - Tips for the Journey

1. Gain an understanding of the standards (see next slide for resources)
2. Develop a plan for implementation
3. Perform risk assessment (including a brainstorming session(s))
4. Perform a gap analysis
5. Design and implement new responses for those risks that are not addressed
6. Prepare documentation
7. Establish process for ongoing monitoring and remediation
8. Evaluate new system

Quality Management Resources

Quality Management Resource Web page

Free practice aids (one for sole practitioner and one for small/medium sized firms)

Crosswalk between SQMS No. 1 and SQCS No. 8, as amended

Firm checklist to guide your quality management system

Webinar series

Self study course

GAO - Yellow Book - 2024 Revision Issued

New Chapter 5 titled, Quality Management, Engagement Quality Reviews, and Peer Review

Clarifies when the concept of reporting key audit matters, previously introduced in AICPA auditing standards, might apply

Effective date aligns with AICPA's SQMS standards

- Effective for financial audits, attestation engagements and reviews of financial statements for periods beginning on or after December 15, 2025.

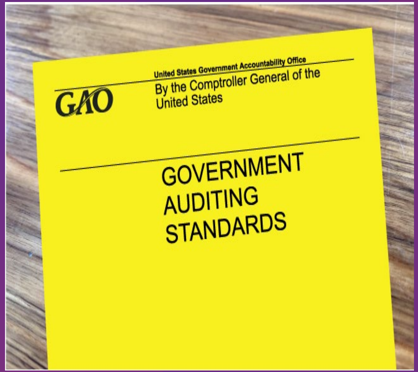
- Early implementation is permitted

Access the standards

Yellow Book - 2024 Revision Issued

Nongovernment audit organizations subject to the AICPA's quality management standards should comply with those quality management requirements, as well as specific additional requirements as follows:

- If an engagement is terminated before it is completed and an audit report is not issued, a requirement to document the results of the work to the date of termination and why the engagement was terminated.
- If auditors change the engagement objectives during the engagement, a requirement to document the revised engagement objectives and the reason for the changes.
- Quality objectives relevant to resources should address that auditors performing work in accordance with the Yellow Book meet its CPE requirements.



GAO Study on FAC Data

GAO released study in April: *Single Audits: Improving Federal Audit Clearinghouse Information and Usability Could Strengthen Federal Award Oversight*

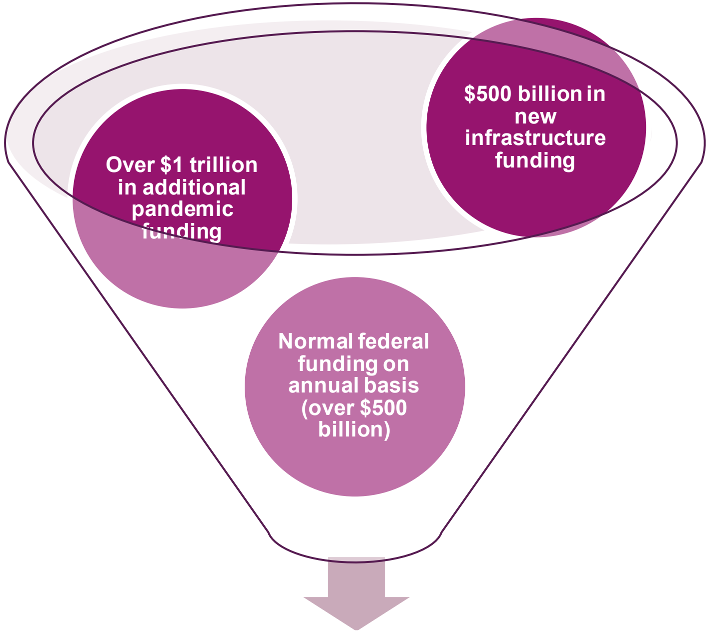
Found data problems, some of which were related to auditor-submitted data

Recommends Congress amend the Single Audit Act to require OMB to initiate a governmentwide single audit quality review at a regular interval and includes ten other recommendations for GSA and OMB

Relevant focus points for your upcoming single audits:

- Re-emphasize to staff the importance of ensuring that data entered by the auditor is consistent across the various sections of the submission and that it matches the information in the reporting package
- If findings are reported, ensure that the required findings text is entered accurately as required

Single Audit - Significant Stress in System Continues



End Result: Continued Need for Single Audits and Other Similar Compliance Audits

Year	# Single Audits*
2019	37,290
2020	39,796
2021	44,027
2022	45,286

***Above numbers do not include for-profit audits of federal funding (e.g., healthcare entities and shuttered venues) which likely would add another 10,000+ audits for 2021 and likely 2022**

Single Audit - Deeper Dive Coming in June

For a deeper dive on single audit and the 2024 Supplement, attend the GAQC Web event: *2024 OMB Compliance Supplement and Single Audit Update*

- **June 13, 2024,** 1-3pm (Eastern Time)
- Will include the latest information on the Supplement
- Register with CPE or No-CPE options
- Our discussion today will provide more of a high-level overview

Expectations for 2024 *Compliance Supplement*

Expected in May 2024

15 new programs, 1 new cluster, removal of 4 clusters

Removal of ALNs from several clusters

Changes to many other programs including:

- Performance reporting updates
- Changes to compliance requirements subject to audit
- Changes due to law or regulation updates
- Changes to introduce IIJA provisions

Part 3 will have minimal changes

- The Build America Buy America Act section in the Procurement, Suspension and Debarment requirement may be revised

CAUTION!
Information on 2024 Supplement is based on most recent vett drafts the GAQC has reviewed.

Review final Supplement closely and attend June GAQC event to learn more about the final changes.

Expectations for 2024 *Compliance Supplement*

Will continue to include listing of higher risk programs in Appendix IV; programs that may be included:

Assistance Listing (CFDA) Number	Title
84.425	Education Stabilization Fund
93.778/93.777/93.775	Medicaid Cluster
21.023	Emergency Rental Assistance
21.027	Coronavirus State and Local Fiscal Recovery Funds
15.252	Bipartisan Infrastructure Law (BIL) Abandoned Mine Land (AML) Grants

Appendix IV has been renamed to “Higher Risk Designation.” This Appendix will remove the previous list of programs which have “Other Information” sections in Part IV of the Supplement.

CAUTION! Information on 2024 Supplement is based on most recent vett drafts the GAQC has reviewed.

Review final Supplement closely and attend June GAQC event to learn more about the final changes.

Single Audit - Pandemic Funding Update

Winding down, but still in play for many recipients

The largest and most pervasive programs remaining are:

- CSLFRF (ALN 21.027)
- ERA (ALN 21.023)
- ESF (ALN 84.425)
- PRF (ALN 93.498)

Be aware that recipient compliance and reporting guidance continues to be updated by agencies for these programs (e.g., CSLFRF FAQs, ERA FAQs, and PRF FAQs all recently updated)

Auditors still need to focus on pandemic funding nuances and keep a focus on quality

Single Audit - FEMA Disaster Grants - ALN 97.036

SEFA recognition confusion particularly when States place additional requirements on the funding

- 2024 *Compliance Supplement* will add clarity
- FEMA has informed us that they may refer to the award date as the obligation date; however, while these two terms have slightly different technical meanings, the obligation and award occur simultaneously for public assistance awards and subawards
- FEMA awards are considered subawards (not direct) when a state agency is used as a pass-through entity.

SEFA implications of disallowances

Duplication of Benefits - FEMA reviews

Other Information (excerpt from upcoming 2024 Supplement)

"Nonfederal entities must record expenditures on the Schedule of Expenditures of Federal Awards (SEFA) when (1) FEMA has approved the nonfederal entity's Project, and (2) the nonfederal entity has incurred the eligible expenditures. ***FEMA's approval of a subaward is indicated when FEMA obligates the federal share of the eligible project cost to the recipient.*** *Federal awards expended in years subsequent to the fiscal year in which the Project is approved are to be recorded on the nonfederal entity's SEFA in those subsequent years."*

Single Audit - HHS-OIG New Single Audit Web Page

Intended to help stakeholders strengthen their understanding of the scope of single audits and to improve audit quality

The new page includes a section on HHS OIG oversight activities which details the OIG efforts around performing quality control reviews and desk reviews.

It also includes summaries of common quality deficiencies in HHS desk reviews and common quality deficiencies noted in HHS quality control reviews.

You can access the HHS-OIG Web Page here.

Other Single Audit Developments - Student Financial Assistance

If you audit entities that participate in the SFA program, you should be aware of the following issuance by the department of ED

A final regulation titled, Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit (ATB), requires institutions participating in the SFA program, among other things, to disclose:

- "All" related parties must be disclosed in their financial statements
- Details such as related party name, location and description also required
- If no related parties, a statement that there are none must be made.

GAQC is working on a TQA to assist auditors having clients for which this requirement applies. Stay tuned!

Effective Date of the regulation is for audits issued July 1, 2024

Single Audit - Common Audit Quality Findings from Peer Review, Ethics and HHS-OIG Reviews

- Independence considerations
- Auditor qualification
- Professional judgment/ Due professional care
- Major program determination
- Sampling
- Testing of internal control over compliance
- Testing compliance
- Reporting matters
- Correspondence with those charged with governance
- Audit findings

For a deep dive into single audit quality findings and how to avoid them, watch the GAQC archived event:

What Federal Agencies are Finding in Single Audit QCRs

Common Findings from Peer Review, Ethics and HHS-OIG Reviews - Independence

- Inadequate documentation of independence considerations including SKE, threats to independence and their significance, and safeguards performed to address a significant threat
- The audit documentation did not support that the auditor applied the GAGAS conceptual framework approach to independence.
- The audit documentation did not support whether or not the auditor identified any threats to independence.
- Evaluation of performance of nonaudit services not documented
- Nonaudit services identified not consistent between engagement letter, independence analysis documentation and management representation letter
- Lack of proper identification of management's SKE
- Documented management's SKE in place of safeguards
- Did not identify preparation of F/S as a significant threat

Common Findings from Peer Review, Ethics and HHS-OIG Reviews - Auditor Qualifications

- The audit organization did not maintain CPE documentation for each individual auditor as required by the Yellow Book.
- The audit organization did not maintain a 2-year-period CPE cycle for its auditors performing the GAGAS engagement as required.
- The CPE documentation did not support that the Yellow Book CPE requirements were met for each individual auditor involved in the GAGAS engagement.

Common Findings from Peer Review, Ethics and HHS-OIG Reviews - Major Program Determination

- Incorrect identification of an auditee as low-risk
- Inaccurate calculation of Type A/B thresholds
- Incorrect determination of large loan programs and failing to exclude them from the Type A threshold calculation
- Designating Type A programs as other than low-risk with no support for such determination
- Not documenting auditor's judgement and analysis for determination of Type B programs as high-risk or other than high-risk
- Including a program on the SEFA when it should not have been with an impact to % of coverage (errors in % of federal funding of timing of inclusion on the SEFA)
- Not treating sub-programs within the ESF program as one program or treating it as a cluster of programs
- Identifying a Type A ESF program as low-risk because it was audited last year with no issues noted even though the program was designated as "higher risk" in the applicable Supplement and is 100% COVID-19 funded

Common Findings from Peer Review, Ethics and HHS-OIG Reviews - Sampling

- Inadequate sample sizes
  - not following applicable guidance
  - dual-purpose
- Incomplete populations
- Sample selection methodologies
- Incorrect sampling units
- The sample selected for the testing of internal controls was not the appropriate size based on the assessed level of control risk.
- A sampling plan was not documented.
- The basis for deviations from the sampling plan was not documented.
- Samples taken from incomplete populations
- Samples selected from samples
- Block sampling
- Performing interim testing and not extending the sample for the remainder of the year

Look to the GAQC for Help in Areas Commonly Identified as Having Quality Issues

- Independence in Yellow Book Audits and Other Ethics Related Updates
- Nonaudit Services under the 2018 Yellow Book
- Commonly Asked Yellow Book Questions
- Major Program Determination
- Compliance Requirements and Internal Control over Compliance
- Evaluating and Reporting Findings in a Single Audit
- Overview of Sampling and Single Audit Reporting Requirements

AICPA Audit Guide, Government Auditing Standards and Single Audits

Key resource for auditors; you should be using this Guide!

2024 update expected in eBook and online subscription this summer

Key changes:

- Conforming changes relevant to SAS 148 and risk assessment
- Updates to certain pandemic funding information
- Updates for FAC changes

Order when published at: https://www.aicpa-cima.com/cpe-learning

Single Audit - FAC

GSA took over the FAC from the U.S. Census Bureau on October 2, 2023, and is accepting:

- Single audits with periods ending in 2023 and 2024
- Single audits of other periods that were not submitted as required to Census before October 1, 2023
- Resubmissions

GAQC has worked closely with the FAC to identify transitional issues impacting auditors and to ensure they are addressed

While still work to be done, things have been improving

Single Audit - FAC

No current submission waivers in effect

- Last OMB waiver related to 2023 submissions with fiscal periods ending between January 1, 2023, and September 30, 2023, whereby OMB waived the 30-day aspect of the submission requirement (2 CFR 200.512(1))

The new FAC is not able to accept submissions for alternative compliance examination engagements relating to the CSLFRF program

- ACEE engagements are to be submitted directly to Treasury (see CSLFRF Project and Report Expenditure User Guide for details beginning page 79)

For more information about the GSA FAC, watch these GAQC archived events:

GAQC 2024 Single Audit Lightning Round

New GSA Federal Audit Clearinghouse and Related Auditor Tips

Single Audit - FAC

Need assistance?

- The GSA FAC single audit submission resources page is a good place to start
- A detailed submission guide is available that will walk you through creating a login.gov account, completing the required workbooks, certifying the information, and making the submission
- Updates on items GSA working on can be found at: https://www.fac.gov/info/updates
- FAC Help Desk: https://support.fac.gov/hc/en-us

FAC.gov

Single Audit - UG Revisions

OMB issued final revisions to the UG in a *Federal Register notice* on April 22, 2024

- OMB received several thousand individual comments on its proposed changes (read the GAQC Comment Letter)

OMB also issued a related memo to the federal agencies which discusses, among other things, their responsibilities in the implementation of the new regulation

A redline document showing the UG revisions is also available with several reference guides

The structure of 2 CFR generally remains the same (e.g., parts, subparts, and section numbering remain largely intact)

The GAQC is still in the process of analyzing the UG changes.

We will cover more on in our June 13th event, *OMB Compliance Supplement and Single Audit Update*

Single Audit - UG Revisions - Auditors

The threshold for audit increases from $750K to $1 million.

The Type A threshold increases to $1 million and the amount of awards expended for which it applies is increased from $25 million to $34 million.

The questioned costs definition is revised, and examples have been provided to help provide further clarification.

For audit findings where the auditor indicates the amount of questioned costs, is "undetermined“ or “unknown,” the auditor will have to explain why.

Throughout subparts A - E of the regulation the use of the term non-federal entity has been replaced with recipient and/or subrecipient.

- Subpart F, *Audit Requirements*, retains the non-federal entity term to align with the Single Audit Act.

Single Audit - UG Revisions - Auditee

The following are a few examples:

- Revises the template text for a Notice of Funding Opportunity
- Raises the de minimis indirect cost rate from 10% to 15%
- Removes the requirement that indirect cost rates be available on a governmental website
- Raises equipment and supply thresholds from $5,000 to $10,000
- Removes prior written approval for 10 items of cost
- Modifies and expands many definitions such as period of performance and questioned costs
- Modifies the definition of “Modified Total Direct Costs” to exclude subaward costs above $50,000
- Revises areas of the cost principles including clarification of pension costs
- Added requirement related to cybersecurity measures.

Single Audit - UG Revisions - Effective Date

The effective date stated in the FR notice is October 1, 2024

The memo to federal agencies further discusses effective date and the implementation of the new regulation.

- Instructs that federal agencies must take appropriate steps to ensure that the new Uniform Guidance is effective for all federal awards issued on or after October 1, 2024.
- States that federal agencies may elect to apply the new Uniform Guidance to federal awards issued prior to October 1, 2024, but they are not required to do so.

Common Question: When do the changes in Subpart F including the increased audit threshold take effect?

Unofficial Answer: This will officially be addressed in the 2024 Supplement. We believe it will likely be for audits of periods beginning on or after October 1, 2024. However, you MUST review the final Supplement to determine the official OMB guidance.

For-Profit Entities - Recent Recipient Issues

Pandemic funding greatly expanded the number of for-profit entities becoming subject to an audit requirement

For-profits are starting to get infrastructure funding with a large percentage coming from one or more State pass-through entities

Challenges continue to expand/multiply

Accounting for grants for business type entities

Tread carefully and be sure to document support for audit approach taken

Tips for Auditors Finding Themselves in the "For-Profit Entity" Conundrum

1. Understand if the entity is considering entering into agreements that involve federal funding

2. Gain an overall understanding of the applicable federal funding and types of costs to be incurred

3. Understand the audit and reporting requirements (often have unspecified or conflicting requirements)

4. Understand the applicable compliance requirements associated with the federal funding (often have conflicting requirements)

5. Consider if the entity has the underlying structure/policies/procedures needed to comply with the applicable compliance requirements

6. When in doubt - confer with funder(s) and document conclusions

For-Profit Entities: HUD Updates

HUD's *Consolidated Audit Guide* is out of date

- Revisions are needed to many chapters to address various updates issued by HUD (e.g., mortgagee letters, all-participant memos, etc.)

Guide requires auditors to perform reasonable procedures to ensure that compliance requirements are current and to determine whether any additional provisions of contracts and grant agreements should be covered

- Reasonable procedures are stated to be inquiry of auditee management and review of the contracts and grant agreements for major programs

Access updated HUD report illustrations on GAQC Web site

For-Profit Entities - ED Proprietary Schools and Servicers

March 2023 edition of the guide has been amended over the last year by:

- CPA-23-02, Revised 90/10 Revenue Calculation Testing and Example Footnote (effective for proprietary school financial statement audits of fiscal years beginning on or after January 1, 2023, that are conducted using the March 2023 Guide)

Electronic announcement General-23-117- Institutional Reporting and Department Treatment of Certain U.S. Army Tuition Assistance Funds for Purposes of the 90/10 Calculation

Access QCR checklist and Desk Review checklist used by ED-OIG for reviews of these engagements

Panel discussion - What final tips do you have for our members as it relates to the technical topics we just discussed?

Annual Update

GAQC Update

Technical Update

NFP and SLG F/S Audit Developments

GAQC & AICPA Resources

Governmental Audit Quality Center

NFP F/S Audit Developments

Mark Your Calendars: Upcoming NFP F/S Audit Related Webcast for a Deeper Dive

NFP Web event, *Not-for-Profit Entities: 2024 Industry Developments*

Register here for CPE offering

- Wednesday, May 29, 2024
- 1:00 PM - 3:00 PM (Eastern)
- Members can use the discount code “GAQC” at check out for a 20% discount

FASB NFP Standards Tracker

Effective Upon Issuance

- ASU 2022-06 - Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

12/31/2023

- *ASU 2016-13—Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (Non-Public Entities)*
- ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*
- ASU 2022-02—*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* (Non-Public Entities)
- ASU 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations (except for the amendment to rollforward information which is applicable for FY beginning on or after 12/15/2023)*

12/31/2024

- *ASU 2021-08—Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*
- ASU 2022-04-*Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*
- *ASU 2023-01-Leases (Topic 842): Common Control Arrangements*

Caution! Simplified presentation of dates - refer to actual standards for detailed nuances!

NFP F/S Accounting and Auditing Developments

CECL

Going Concern Issues

- Fundraising Challenges
- Loss of COVID Funding

Key Focus Areas

CECL

- FASB ASU 2016-13 replaces current "incurred loss" methodology for recognizing credit losses with the requirement to estimate credit losses expected over the contractual life of a financial asset
- Contributions receivable were scoped out of ASU 2016-13
- Effective for fiscal years beginning after December 15, 2022
- NFP Expert Panel has developed guidance which will be incorporated into the 2024 edition of the AICPA NFP Guide
- See also article issued by AICPA Center for Plain English Accounting

NFP CECL Implementation Challenges

- Technical Challenges - understanding the technical complexities or ambiguities within the CECL standard.
- Resource Constraints - limited resources such as limited expertise, staffing shortages, or budgetary constraints, that impede the organization's ability to effectively implement CECL.
- Data Quality & Availability - challenges related to data completeness, accuracy, consistency, or the ability to obtain historical data necessary for forecasting credit losses.
- Model & Estimation Challenges - difficulties in developing or refining credit loss models and estimation techniques to comply with CECL requirements.
- Industry-Specific Considerations - unique challenges or NFPs due to operational structures or financial characteristics

Key Focus Areas

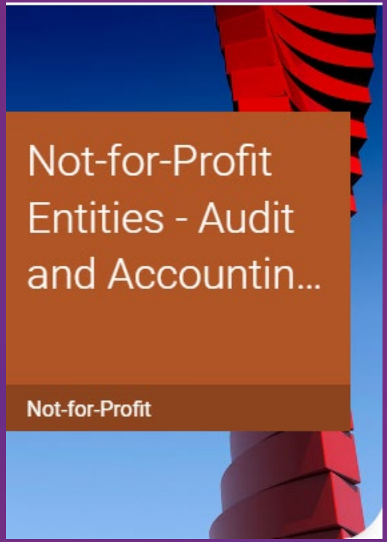
AICPA Audit and Accounting Guide, *Not-for-Profit Entities*

Key resource for not-for-profit accounting and auditing professionals.

2024 edition of the guide which will be issued by early June includes updates on:

- SAS No. 142, *Audit Evidence*
- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- FASB ASU No. 2017-07, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

The online version of the 2024 Guide is expected to be re-released with information updated for CECL in late summer 2024.



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Governmental Audit Quality Center

SLG F/S Audit Developments

Mark Your Calendars: Upcoming SLG F/S Audit Related Webcast for a Deeper Dive

GAQC Web Event: *2024 State and Local Government Audit Planning Considerations*

- Wednesday, May 15, 2024
- 1:00 PM - 3:00 PM (Eastern)
- Register for CPE (Fee) or No-CPE (Free)
- Public registration link with CPE (fee) for sharing with clients

GASB Standards Tracker

Reporting periods ending 6/30/2024

- GASB Statement No. 99, *Omnibus 2022,* paragraphs 4-10 (paragraphs 26-32 were effective upon issuance)
- GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*

Reporting periods ending 12/31/2024

- GASB Statement No. 101, *Compensated Absences*

Reporting periods ending 6/30/2025

- GASB Statement No. 102, *Certain Risk Disclosures*

Reporting periods ending 6/30/2026

- GASB Statement No.103, *Financial Reporting Model Improvements*

GASB Upcoming Issuances

2024

- Final: Classification of Nonfinancial Assets
- ED: Subsequent Events
- ED: Implementation Guidance - Update
- ITC/PV: Going Concern Uncertainties and Severe Financial Stress
- ITC/PV: Infrastructure Assets

2025

- Final: Subsequent Events
- Final: Implementation Guidance - Update
- ED: Revenue and Expense Recognition

2026

- ED: Going Concern Uncertainties and Severe Financial Stress
- ED: Infrastructure Assets

2027

- Final: Revenue and Expense Recognition
- Final: Going Concern Uncertainties and Severe Financial Stress
- Final: Infrastructure Assets

SLG F/S Accounting and Auditing Developments

- GASB Statement No. 100
- GASB Statement No. 101
- Other areas being monitored by SLG Expert Panel
  - FDTA (relevant to municipal securities issuers)
  - Inflation Reduction Act Credits
  - Environmental, Social, and Governance
  - Digital Assets
  - Opioid Settlements

Key Focus Areas

Auditing Implications: GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*

- Effective for fiscal years beginning after June 15, 2023
- Provides accounting and financial reporting guidance for
  - Accounting changes
  - Error corrections
- Addresses the required disclosures and provides illustrative note disclosures
- Clarifies how information that is affected by a change in accounting principle or error corrections should be presented in RSI and SI

Auditing Implications: GASB Statement No. 101, *Compensated Absences*

- Effective for fiscal years beginning after December 15, 2023
- Requires that liabilities for compensated absences be recognized for -
  - leave that has not been used
  - leave that has been used but not yet paid in cash or settled through noncash means
- Liability recognized when leave -
  - Is attributable to services already rendered (performed services required to earn leave)
  - Accumulates (be used for time off or otherwise paid or settled in a future period)
  - Is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means
- Leave more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences
- Certain types of compensated absences are not recognized until the leave commences, including parental leave, military leave, and jury duty leave

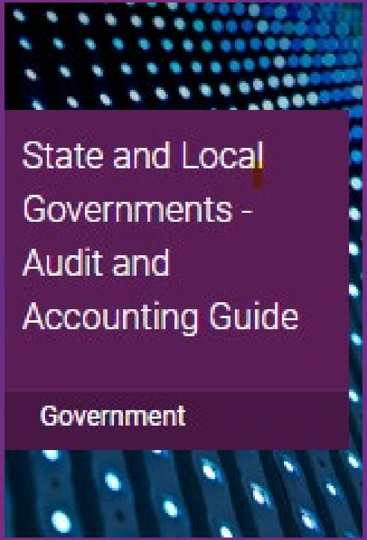
AICPA Audit and Accounting Guide, *State and Local Governments*

Key resource for auditors of SLGs; you should be using this Guide!

2024 edition expected Summer 2024

Key changes made:

- Fully implemented SAS Nos. 143 - 145
- Newly effective GASB Statement Nos. 99, 100, and 101



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Annual Update

GAQC Update

Technical Update

SLG and NFP F/S Audit Developments

GAQC & AICPA Resources

GAQC Web Site (www.aicpa-cima.com/topic/government)

Key areas to check out and/or bookmark:

- GAQC Alert Archive Library
- Archived GAQC Web events
- Illustrative Auditor's Report Resource Center
- OMB Compliance Supplement Resource Center
- Single Audit Resources

GAQC Resources

Auditees

Access GAQC Web event, *Preparing for Your First Single Audit: An Auditee Perspective*)

Other GAQC resources for auditees

- Procuring Governmental Services
- Tips for organizations subject to single audit requirements
- Getting Ready for a Single Audit
- FAQs for Organizations Needing a Single Audit

Auditors

- Access GAQC 4-part 8-hour Single Audit Fundamentals Events (CPE offerings offered periodically)
- Practice Aid, *Government Auditing Standards* Primer
- Single audit tips for auditors
- Smart Sampling in a Single Audit
- Tackling Internal Control Over Compliance in a Single Audit

“Summer Fun” GAQC CPE rebroadcast week (all times Eastern) - watch for registration *GAQC Alert*

Friday, June 21st

- 11am to 1pm - 2023 Auditing State and Local Governments Lightning Round
- 2-4pm - 2024 Annual Required GAQC Webcast

Monday, June 24th

- 11am to 1pm – Implementing the Risk Assessment Standards in Your State and Local Government Financial Statement Audits
- 2-4pm – Key Recipient Roles and Responsibilities in Single Audits

Tuesday, June 25th

- 11am to 1pm – 2024 State and Local Government Audit Planning Considerations
- 2-4pm – What Federal Agencies are Finding in Single Audit QCRs

Wednesday, June 26th

- 11am to 1pm – 2024 OMB Compliance Supplement and Single Audit Update
- 2-4pm – Evaluating and Reporting Findings in a Single Audit

AICPA 2024 Conferences

Not-for-Profit Industry Conference, June 17 - 18, 2024, National Harbor, MD*; June 20 – Virtual Day

Governmental Accounting and Auditing Update Conference, August 13 - 15, 2024, virtual offering only

Governmental and Not-for-Profit Training Program, October 28 - 30, 2024, Las Vegas, NV *

GAQC members get a discount when using code "GAQC" at checkout

*hybrid in-person and virtual event

Other AICPA Resources

Audit and Assurance

A&A Technical Hotline (877) 242-7212
techinquiry@aicpa.org

Ethics Division (including AICPA Ethics Code)

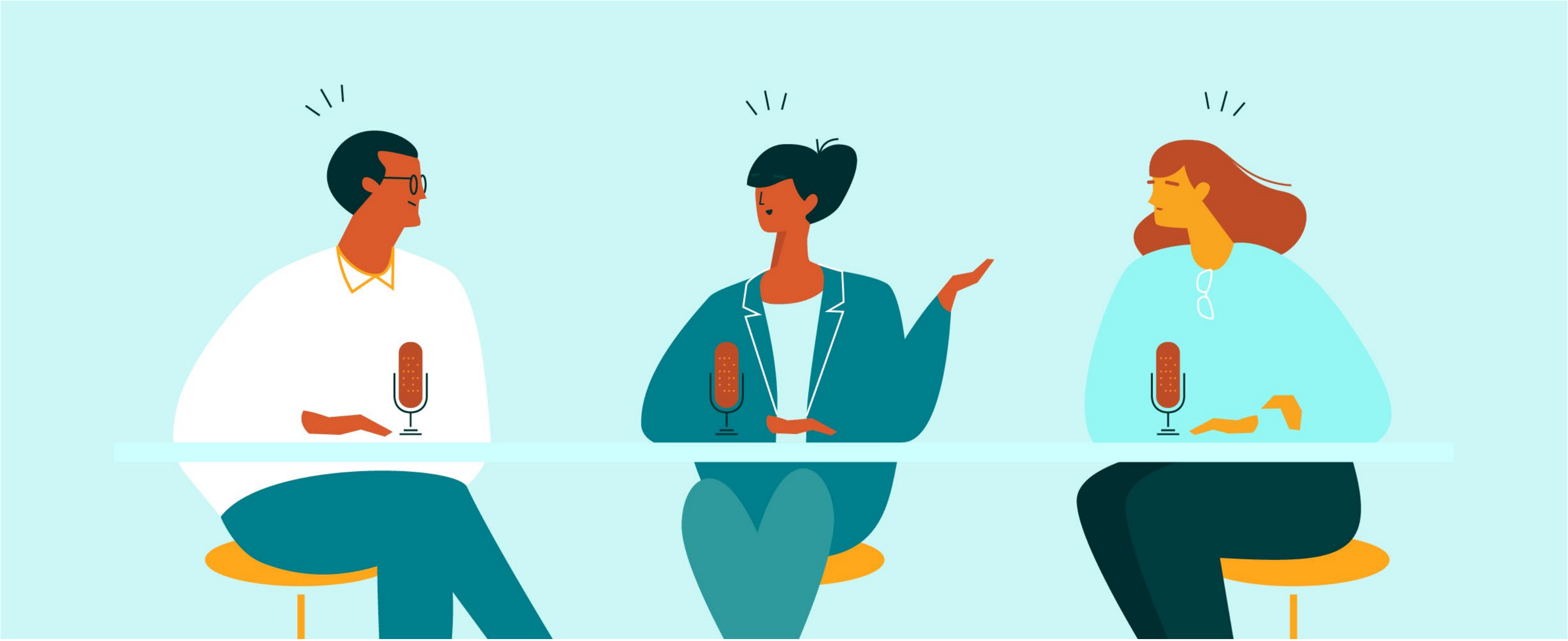
Ethics Hotline (877) 777-7077
ethics@aicpa.org

Not-for-Profit Section - For individuals interested in NFP A&A

Quality Management resources

Peer Review

Panel discussion - What do you think is the most important takeaway from today's Webcast?



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- If you need assistance with locating your certificate, please contact the AICPA Service Center at 888.777.7077 or service@aicpa.org.

Governmental Audit Quality Center

Thank you