Overview

These slides recap the large group discussions about the governmental session cases and should be read in conjunction with the cases and key discussion points.
Table Discussion Guidelines

- Designed to challenge
- Not always a single, correct response
- Share anecdotes, war stories and best practices with your colleagues to generate discussion on the topics
- When presenting, be succinct – hit the key points

Case 1. A-133 Engagement Profile Discussion Key Points

- Alternative format must include the requested info for current and prior 2 years
- Technical reviewer and RAB must have enough information to reach same conclusions on determination
- Insufficient alternatives by themselves
  - Summary of Auditor Results- doesn’t list “nonmajor” programs
  - SEFA- usually doesn’t identify major programs or findings
- Get both the SARs and SEFAs or Data Collection Forms (current and 2 prior)
Case 2. Low Risk Auditee
Discussion Key Points

- Review responses with firm to ensure they understood the question on profile sheet
- Reviewer to recompute info on profile sheet

What are peer reviewers doing about checking DCF filing dates?
- Reviewers rarely check Federal Audit Clearinghouse (FAC)
- Consider checking FAC if auditor claims low-risk auditee status
- [https://harvester.census.gov/fac/dissem/advsearch.html](https://harvester.census.gov/fac/dissem/advsearch.html)

What are reviewers doing about comparing the DCF to the A-133 reports?
- Reviewers typically compare at high level (total $, major program identification)
- Should also check identification of program findings
Case 3. 2 Year Look-Back
Discussion Key Points

- Verify with client if it’s only a clerical error in completing profile
- Reviewer to consider corroborating major program determination (submitted DCF and SAR for current and 2 prior years)
- All non-conforming engagements require MFC

Case 3. 2 Year Look-Back
Discussion Key Points

- Check engagement profile
  - Same CFDA’s combined
  - Correct cluster determination
- Do reviewer’s verify info to the prior A-133 reports or rely on the information provided by the firm regarding major program determination?
  - Mixed response- Most rely on profile for 2 prior yrs.
  - Program tested in 1 of 2 prior years
  - No findings in program (info not on profile!)
Case 4. Percentage of Coverage

Discussion Key Points

- Program coverage cannot be rounded up to 50% (49.6% is not close enough)
- MFC required for nonconforming engagement
- Reviewer should consider tone at the top if inappropriate firm response (vs. misunderstanding of coverage requirement)
- Matter: Firm did not recompute coverage before final completion of audit
- Systemic causes: (Engagement Performance and Supervision) System design and required procedures

Case 5. Internal Control Testing

Discussion Key Points

- How was control risk determined to be high?
  - Can't default at high; must have basis for determination. A133 requires trying to achieve low control risk.
- Unreported control deficiencies/material weakness in internal control
- Engagement nonconforming for documentation at a minimum (MFC)
- Firm responsibilities: omitted procedures or recall/reissuance consideration
- Reviewer: Expand scope, if possible, to determine pervasiveness
Case 5. Internal Control Testing

- **A-133 requires planning to test controls to try to get to low level of control risk**
- **A-133 internal control over federal programs**
  - Internal control pertaining to the compliance requirements for federal programs (internal control over federal programs) means a **process**—effected by an entity’s management and other personnel—designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs....

---

Case 5. Internal Control Testing

1. **Transactions are properly recorded and accounted for to:**
   a) Permit the preparation of reliable financial statements and federal reports;
   b) Maintain accountability over assets; and
   c) Demonstrate compliance with laws, regulations, and other compliance requirements;
2. **Transactions are executed in compliance with:**
   a) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
   b) Any other laws and regulations that are identified in the compliance supplement; and
3. **Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.**
Case 6. Dual Purpose Testing

Discussion Key Points

- Control testing did not cover compliance attributes
- Quantity and Quality of sample (were the correct attributes tested?)
- Engagement deemed nonconforming (MFC)
- Expand scope; systemic cause?

Case 6. Dual Purpose Testing

- COSO framework used for internal controls
- Controls prevent or detect errors or irregularities from occurring or timely detects them
- Compliance does not prove that controls exist
Case 6. Dual Purpose Testing

- Appropriate population
- Representative Sample
- Sufficient Sample Size
- Attributes Relate to Objectives

Testing Objectives

Case 7. Engagement Deficiencies

Discussion Key Points

- Nonconforming engagement (MFC)
- Expand scope; systemic?
- Firm responsibilities: consider omitted procedures and/or recall/reissuance
- Tone at the top? Acceptance procedures?
- Reviewer consideration of impact on report: If firm’s only 1 A-133- PWD; If multiple A-133- consider pervasiveness
Case 7. Engagement Deficiencies

- **Nonconforming**
  - Missed major program
  - Applicable, Direct, and Material compliance documentation failure
  - Failed to test internal controls

- **Document deficiencies on MFC form(s)**

- **Expanding scope to determine if systemic**

---

Evaluating a deficiency

- Systemic?
- Cause?
- Firm’s Response
- Report Impact
Case 8. Systemic Cause

Discussion Key Points

- 8.1 No A-133 specific CPE; systemic cause-competence
- 8.2 Engagement acceptance- Competence or consultation
- 8.3 Supervision and review; CPE training; assignment of personnel
- 8.4 Assignment of personnel; supervision and review
Case 9. Nonconforming Engagement

Discussion Key Points

- Consider tone at the top if firm does not properly consider remediation
- See Peer Review Supplemental Guidance issued in October 2012

Case 9. Nonconforming Engagement

- Reviewer needs to **immediately** inform firm of nonconforming engagements *
- Firm must evaluate responsibility for omitted procedures or subsequent discovery of facts
- Firm should communicate response to reviewer
- Reviewer evaluates response
- Documented in SRM

* - Int 67-1 would require MFC
Case 9. Nonconforming Engagement

- Consider user(s) reliance
- Consider ability to reperform/reissue
- Consider firm’s responsiveness
- Evaluate firm’s response

Case 10. 2011 Yellow Book, Nonaudit services, threats and safeguards

Discussion Key Points

- Anything more than necessary procedures to provide an audit opinion is a nonaudit service
  - Assistance with preparation of financial statements is still a nonaudit service (not prohibited, but must evaluate)
  - Is typing/production/clerical (only) assistance with financial statements also considered a nonaudit service if client provides ALL information?
    - In the opinion of the presenter- YES
    - 2011 Yellow Book para. 3.40 defines preparation of financial statements as a nonaudit service
<table>
<thead>
<tr>
<th>Case</th>
<th>Nonaudit Service</th>
<th>Significant Threat</th>
<th>Safeguard</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1</td>
<td>Form 990</td>
<td>Probably not</td>
<td>N/A</td>
</tr>
<tr>
<td>10.2</td>
<td>Education</td>
<td>Probably not</td>
<td>N/A</td>
</tr>
<tr>
<td>10.3</td>
<td>Draft FS</td>
<td>Almost always Yes</td>
<td>2\textsuperscript{nd} review outside of audit team</td>
</tr>
<tr>
<td>10.4</td>
<td>GASB 34 conversion and draft FS</td>
<td>Almost always Yes</td>
<td>2\textsuperscript{nd} review outside of audit team</td>
</tr>
<tr>
<td>10.5</td>
<td>Depreciation</td>
<td>Maybe</td>
<td>2\textsuperscript{nd} review</td>
</tr>
<tr>
<td>10.6</td>
<td>Reconciliations</td>
<td>Maybe</td>
<td>2\textsuperscript{nd} review</td>
</tr>
</tbody>
</table>

Case 10. 2011 Yellow Book Independence and Nonaudit Services

- Financial Statement Preparation
- Bookkeeping services
- Cash to accrual conversions (a form of bookkeeping)
- Other services not directly related to audit

If not an audit service, then it is a nonaudit service
Case 10. 2011 Yellow Book Independence and Nonaudit Services

- Identify nonaudit services
  - Meet preconditions

- Evaluate and document SKE

- Assess threats
- Document consideration of significant threats
  - Apply safeguards when significant threats exist
Case 10. 2011 Yellow Book

Identification of nonaudit services is critical to successful compliance with the documentation and evaluation requirements

- Nonaudit services inherently contain 2 threats – self review and management participation. All nonaudit services require that the auditor use the conceptual framework to assess threats and apply safeguards as needed. In addition, ALL nonaudit services must include the items noted in the bullet points on previous slide.

Case 10. 2011 Yellow Book

AICPA int. 101-3 requires

- an understanding of the terms, objectives and limitations of the services
- evaluation of the skills, knowledge and experience (SKE) of the client personnel overseeing the nonaudit service
- prohibits the auditor from performing management responsibilities

2011 YB adds the following requirements:

- Use of the conceptual framework
- Documentation of the SKE evaluation
- Consideration of threats in the aggregate (no documentation requirement)
Case 11. SKE

Discussion Key Points

- Nonconforming engagement (MFC) for documentation (at minimum); possible independence impairment
- Ask firm to provide evidence of independence (auditee has SKE; safeguards)
  - Memo in file or representation to corroborate SKE

Firm responsibilities:
- If just documentation: document appropriately
- If impairment: Consider recall requirements

Case 11. Skills, Knowledge and Experience

- Identify Individual: Identify the individual(s) designated to oversee the nonaudit service.
- Assess and Document SKE: Document the skills, knowledge, or experience of the individuals designated.
Case 11. Skills, Knowledge and Experience

- Documentation of the SKE evaluation is required for all nonaudit services regardless of the significance of the threats.

- GAGAS does not require that management have the ability to perform or re-perform the service.

Safeguards don’t resolve lack of SKE

No SKE = No Independence
Case 11. Skills, Knowledge and Experience

- SKE documentation failure • Nonconforming with GAGAS
- Consider independence impairment • Rebuttable presumption
- Outcomes • MFC
  • Firm evaluation of reliance on report
  • SRM

Final Reminders

- Risk assessments in SRM should include the firm’s consideration of implementation of new professional standards
- Seek advice of the AE if encountering situations under new standards as needed
- New audit guides
  • GAGAS/A-133
  • NPO
- Firms continue to incorrectly report Type A threshold at $500K - Check SAR and DCFs on FAC