

GOVERNMENT AUDITING UPDATE



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Bert Nuehring
Partner
Crowe Horwath LLP



Terry Kile
Director
Deloitte & Touche LLP




GOVERNMENT AUDITING UPDATE

- ① Audit Implications of American Recovery and Reinvestment Act of 2009;
- ① Convergence of International Audit and Attest Standards;
- ① Auditing Standards Clarity Project; and
- ① Forthcoming Changes to Government Auditing Standards.

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AUDIT IMPLICATIONS OF AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009



AUDIT OBJECTIVE OF LEGISLATION

- ⊙ Federal government funneling billions of dollars to state and local governments;
- ⊙ Desire on part of Administration for unprecedented oversight and transparency;
- ⊙ The funds will be subject to single audit requirements; and
- ⊙ Significant federal scrutiny of single audits performed on Recovery Act funds primarily in 2010-2011 timeframe.



AUDITOR PERSPECTIVE

- ◎ Some 2009 audits impacted but major impact is 2010 and 2011 year-end audits;
- ◎ Accountability and transparency:
 - ◎ QCR's built into the OMB Guidance—results will be posted on Recovery.gov;
 - ◎ Section 1512 reporting; and
 - ◎ Recovery Act Transparency Board monitoring activity and concerned about waste, fraud and abuse.
- ◎ Non-static Compliance Supplement and other OMB guidance; and
- ◎ Major program determination.



OMB GUIDANCE TO PREPARERS AND AUDITORS

- ◎ Guidance is non-static;
- ◎ Initial Implementing Guidance (issued February 18, 2009);
- ◎ Follow-Up OMB Implementing Guidance (issued April 3, 2009);
- ◎ Implementing Guidance for the Reports on Use of Funds Pursuant to the Recovery Act (issued June 22, 2009); and
- ◎ Addendum to *Compliance Supplement* (issued on August 5, 2009).



COMPLIANCE SUPPLEMENT

- ◎ 2009 Addendum effective for June 30, 2009 single audits;
- ◎ Matrix of Compliance Requirements updated;
- ◎ New program sections and new guidance for certain compliance requirements;
- ◎ Appendix addressing Recovery Act Compliance issues; and
- ◎ Still awaiting 2010 Compliance Supplement.



ARRA APPENDIX TO COMPLIANCE SUPPLEMENT

- ◎ Major program determination:
 - ◎ One CFDA number (both non-Recovery Act and Recovery Act); and
 - ◎ New CFDA number is used for the Recovery Act funds.
- ◎ Auditors may have to use multiple sources to determine compliance requirements; and
- ◎ Schedule of Expenditures of Federal Awards and Data Collection Form need to identify Recovery Act expenditures separately.



CLARIFIED MAJOR PROGRAM GUIDANCE

- ⊙ Can a Type A program with one CFDA number for both ARRA and non-ARRA be low risk?
 - ⊙ De minimus consideration;
 - ⊙ Lack of findings in prior year;
 - ⊙ Qualitative factors;
 - ⊙ Document considerations;
 - ⊙ Fed oversight and review; and
 - ⊙ Fed position seems to be that all are high risk.



AUDITOR MESSAGE TO PREPARERS

- ⊙ Client processes that recognize the unique requirements of ARRA;
- ⊙ Consider a Recovery Act “czar” or task force;
- ⊙ Need for appropriate control and procedures of these unique programs; and
- ⊙ Separate tracking and identification of funds.




AUDITOR MESSAGE TO PREPARERS (CONTINUED)

- ⊙ Any new controls should be tested for compliance before implementation;
- ⊙ Appropriate sub-recipient monitoring; and
- ⊙ Adequate reporting process to address the new transparency and accountability requirements.



CONVERGENCE OF INTERNATIONAL AUDIT AND ATTEST STANDARDS



ACTIVITIES OF AUDITING STANDARDS BOARD

- ⊙ Harmonizing agenda with International Audit and Assurance Standards Board;
- ⊙ Providing resources to develop new/revised international auditing standards;
- ⊙ Developing practice guidance for ISA's and SAS's in specific industries;
- ⊙ Monitoring progress of IAASB with small task forces; and
- ⊙ Reorganizing standing committees to more align with the internationalization of audit/attest standards.

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AUDITING STANDARDS CLARITY PROJECT



AUDITING STANDARDS CLARITY PROJECT

- ◎ 2004: The Auditing Standards Board (ASB) launched a significant effort to make US GAAS easier to read, understand, and apply.
- ◎ 2009, the International Auditing and Assurance Standards Board (IAASB) completed a similar project to clarify its International Standards on Auditing (ISA's).
- ◎ By the first half of 2011, US GAAS and ISA's will be converged to attempt to clarify all Statements on Auditing Standards (SAS).

AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ⦿ The goal is to issue all of the clarified standards in one SAS:
 - ⦿ In 1972, SAS No. 1 accomplished this when it was issued.
- ⦿ This new SAS will supersede *all* SAS's issued previously.





AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ◎ What's Changing?
 1. Establish objectives for each of the standards and define the auditor's obligations related to the objectives;
 2. Make structural and drafting improvements to the standards so they are easier to read, understand and apply;
 3. Include special considerations related to the audits of governmental entities; and
 4. *Converge with the ISAs or clearly establish reasons for not doing so.*



AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

◎ Significant Changes:

1. *Auditor's reports.* Expect major changes in the language of the auditor's report, including special reports and reports on supplementary information;
2. *Subsequent Events.* Expect accounting guidance to be moved from the auditing standards, resulting in changes in auditor responsibility;
3. *Initial Audits.* Expect some additional requirements related to opening balances;
4. *Illegal Acts.* Expect additional requirements related to detecting noncompliance with laws and regulations that could have a material effect on the financial statements; and
5. *Service Organizations.* Expect changes in the user auditor's responsibilities, as well as reporting changes when using the work of a service auditor.



AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

☉ Training Needed:

1. *Terminology.* You'll see major changes in the terminology used in the auditing standards as a result of international convergence;
2. *Geography.* Some existing AU sections will be merged, others will be split apart and some will find their way to new locations in bits and pieces. When all is said and done, it may take time and training to become familiar with the new layout.

AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ⊙ Effective Date:
 - ⊙ Expected to apply to all audits of financial statements for periods beginning on or after December 15, 2010: Original Tentative Date
 - **The expected effective date referred to above has been amended to periods ending on or after December 15, 2012.** New Tentative Date
 - For all but six sections.





AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ◎ The six sections, expected later, are:
 1. AU Section 322, *“The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements”*;
 2. AU Section 341, *“The Auditor’s Consideration of the Entity’s Ability to Continue as a going Concern”*;
 3. AU Section 625, *“Reports on the Application of Accounting Principles”*;

AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

4. AU Section 634, *“Letters for Underwriters and Certain Other Requesting Parties”*;
5. AU Section 711, *“Filings Under Federal Securities Statutes”*; and
6. AU Section 722, *“Interim Financial Information”*.

- ◎ The effective date for these six sections is expected to be determined soon.





AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ⦿ Early Implementation:
 - ⦿ Determined to be not appropriate until all clarified standards are finalized and can be adopted at once.
- ⦿ The AICPA will make exposure drafts of each clarified standard available on the “Improving the Clarity of the ASB Standards” page on its website. The finalized standards will be made available on the “Final Clarified Statements on Auditing Standards” page.



AUDITING STANDARDS CLARITY PROJECT (CONTINUED)

- ⊙ Final points:
 - ⊙ No clarified standard is effective yet, even if it is classified as “final”;
 - ⊙ More information on the progress of this project is available on the AICPA web site, under the “Audit and Attest Standards” page; and
 - ⊙ The new SAS’s will not start over at No. 1! The clarified SAS numbers will be the next consecutive number that is available.

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FORTHCOMING CHANGES TO GOVERNMENT AUDITING STANDARDS



GOVERNMENT AUDITING STANDARDS

- ⊙ *Government Auditing Standards* (the "Yellow Book") contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations;
- ⊙ These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy; and
- ⊙ These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.



GOVERNMENT AUDITING STANDARDS (CONTINUED)

- ◎ To help ensure that *Government Auditing Standards* (the "Yellow Book") continues to meet the needs of the audit community and the public it serves, the Comptroller General of the United States appointed the Advisory Council on Government Auditing Standards to review the standards and recommend necessary changes.
- ◎ First published in 1972, recent Yellow Book Revisions:
 - ◎ 2007, reinforced principles of transparency and accountability ;
 - ◎ 2003 , redefined types of audits and services covered by standards.



UPCOMING YELLOW BOOK REVISIONS

- ⊙ Streamline with what other standard-setters have done;
- ⊙ Address issues that GAO has observed;
- ⊙ Independence Standards and corresponding Q&A guidance;
- ⊙ Exposure draft expected in June, 2010 with 90 day comment period; and
- ⊙ Final 2011 Yellow Book in June 2011.

QUESTIONS ?