



Audit Quality and Compliance

MIAF 9/22/2006



BETTY MONTGOMERY

Auditor of State

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Topics for Discussion

- AICPA Noted Deficiencies
 - SLG [State & Local Government] Alert
 - SA [A-133] Alert
- Federal IGs\ National Single Audit Quality Sampling Project
 - Mr. Hugh Monaghan
- GAQC

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AICPA SLG Audit Risk Alert 2006

- AICPA Peer Reviews
- AICPA Professional Ethics Investigations
- Recurring Deficiencies



GAGAS CPE Standards



- GAO issued April 2005 “Guidance on GAGAS Requirement for Continuing Professional Education”.
 - Explains the GAGAS CPE requirements
 - May be accessed at:
<http://www.gao.gov/govaud/ybcpe2005.pdf>

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Inadequate or outdated reference material

❖ AICPA Professional Standards

❖ 2003 GAS

❖ 2006 ?

❖ 2 Audit Guides

✓ 2 Risk Alerts



Inadequate or outdated reference material

❖ GASB Cod\OP, FASB CT\OP

❖ Appropriate compliance guidance

❖ OMB Comp Supp

❖ Local guidance e.g., Ohio Comp Supp

❖ Regs that apply

❖ Not for Profit Guide e.g.

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❖ Using a service [e.g., PPC]

❖ Use tools and editions appropriate for the type of engagement you are performing and the correct audit period

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Documentation 1

• Supervisory review



• Audit procedures documented as performed
≠ audit program\plan

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Documentation 2

• Audit Risk
– AR = IR x CR x DR
– AR always s/b “low”



• Fraud risk analysis
– SAS 99



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Documentation 3

- Fraud risk discussions
 - Management
 - Non-management auditee personnel
 - Audit team



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Documentation 4

- Documentation inadequate to support auditor's report(s)
 - Nature, extent
- Sample size derivation
- Preliminary and final analytics
- Clear open items

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Documentation 5

- Subsequent events
- Rep \ attorney letters
 - Date
 - Update
 - No consultation w' attorney



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Documentation 6

- Inadequate concurring review

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GAGAS Audit Documentation Standard

“Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors’ significant judgments and conclusions.
[2003 GAGAS ¶4.22]

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Internal Control 1

- “Placed in operation”
 - AU 319.27: The auditor determines whether controls have been placed in operation as part of the understanding of internal control necessary to plan the audit.
- “Walk-through”, document inspection, inquiries, observation

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Internal Control 2

- Significant IT Functions
 - Assessing at max
 - Acceptable alternatives



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Internal Control 3

- Tests of Controls
 - Less than max or low
 - Test inadequate or not documented
 - Relationship between tests and substantive procedures

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Obtain and Use “Government Auditing Standards and Circular A-133 Audits - AICPA Audit and Accounting Guide” [AICPA Pub. No. 012746]

Consult and Use OMB Compliance Supplement, Part 6

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Reports 1

- Incorrect GAAP
- Inadequate disclosures
- OCBOA \ Regulatory
- GAGAS - restricted use paragraph



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Reports 2

- Incorrect references
 - Wrong statements identified
 - Auditing standards
 - Opinion units
- No GAGAS report
- No IAR GAGAS reference

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AICPA SA [A-133] Audit Risk Alert 2006

- Many issues are the same as SLG 1:
 - CPE
 - Reference materials
 - Fraud risk assessment
 - Supervisory review
 - Inadequate support
 - Fraud discussions
 - Attorney letters

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AICPA SA Audit Risk Alert 2006

- Many issues are the same as SLG 2:
 - Controls placed in operation
 - Effect of significant IT functions
 - Sample sizes, analytics, open items
 - Improper GAAP and inadequate disclosures
 - Non-GAAP accounting bases
 - Misabeled statements, wrong standards

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AICPA SA Audit Risk Alert 2006

- Many issues are the same as SLG 3:
 - No GAGAS report
 - No reference in IAR to GAGAS report
 - GAGAS restricted use paragraph

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**Additional Issues Noted
1**

- Major programs determinations
 - AICPA, PPC, SAIS, AOS all have practice aids
- GAGAS and A-133 reporting language not updated; effective May 1, 2004
 - AICPA Guide
- Misclassified statements of cash flows
- GAAP titles used on OCBOA statements

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Additional Issues Noted 2

- Financial statement called OCBOA because cash flows statement was missing [!]
- Responsibility for supplemental information
- IAR failing to report on all periods presented
- IAR referenced GAAP, statement on OCBOA

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Additional Issues Noted 3

- Wrong compliance opinion
- Required findings elements missing
 - CFDA #, award #, program year
- Not auditing high risk type As as major
- Not including all programs in a cluster
- Failing to follow federal audit guides when appropriate

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Federal Reviews



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**Why Quality of Single Audits is
Such an
Important Concern 1**

On August 12, 2006, the Catalog of Federal Domestic Assistance listed 1690 Federal Assistance Programs.

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**Why Quality of Single
Audits is Such an
Important Concern 2**

President's FY 2007 Federal Budget: estimated \$449 Billion of Federal grants will be made to States and local governments, much of it to entities covered by the Single Audit Act.

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Over 28,000 State and local governments and not-for-profit entities submit annual Single Audits

For most Federal programs covered as Major Federal Programs, and most entities, these Single Audits constitute the *only* on-site review of how Federal dollars are expended.

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**Additional Issues Noted By
Federal Reviewers 1**

- Failure to Use a Written Audit Program
[required by AU 311.05]

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**Additional Issues Noted By
Federal Reviewers 2**

- Obtaining an understanding of internal control over Major Federal Programs sufficient to plan the audit to support a low assessed level of control risk.

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**Federal Agency
and National Single Audit
Sampling Project Quality
Control Reviews**

- Audit quality issues in these same areas

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Planning and Supervision
Issues

Some Federal QCRs have raised a fundamental question:

Was the engagement team sufficiently competent to perform the Single audit?



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GAGAS Paragraph 3.42 states:

Audit organizations should ensure that staff members assigned to conduct an audit or attestation engagement under GAGAS collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment.

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Compliance Testing

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Compliance Requirements Identified in Part 2 Matrix of the OMB Compliance Supplement as Applicable to the Federal Program 1

- Not documenting the internal control review, internal control testing and/or compliance testing for each of these compliance requirements; or

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Compliance Requirements Identified in Part 2 Matrix of the OMB Compliance Supplement as Applicable to the Federal Program 2

- Not documenting a convincing explanation why the compliance requirement is not applicable for the particular auditee.

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Compliance testing not properly documented

- Unclear from audit documentation
 - what tests were performed, or
 - that all compliance requirements identified in the Compliance Supplement were tested -or-
 - a convincing explanation documented that compliance requirement was not applicable for the auditee.

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Coverage of Programs Not Covered in OMB Compliance Supplement 1

When Program is not included in Comp. Supp, Part 4 or 5, the Auditor must:

- *Ascertain the program objectives, procedures and compliance requirements*
- *Identify which comp. reqs. have a direct and material effect*

[OMB Comp. Supp. Part 7]

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Coverage of Programs Not Covered in OMB Compliance Supplement 2

When Program is not included in Comp. Supp, Part 4 or 5, the Auditor must:

- *Determine which comp. reqs. are susceptible to testing by auditor; and*
- *Identify into which of the 14 kinds of comp. reqs. each comp. req. falls*

[OMB Comp. Supp. Part 7]

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When a Major Federal Program is not covered in the OMB Compliance Supplement, auditor should consult and use Part 7 of the OMB Compliance Supplement, *Guidance for Programs Not Included in this Compliance Supplement.*

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Incorrect identification of Major Federal Programs

- ✓ Major Federal Programs are identified in the “Schedule of Findings and Questioned Costs”
- ✓ They must be identified by:
 - ✓ CFDA Number and
 - ✓ Name of Federal Program or Cluster

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Including Required Audit Finding Details

Audit Findings must be resolved by Program Officials. For them to do this, Audit Findings need to include all required details.

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Including Required Audit Finding Details

OMB Circular A-133, Paragraph .510(b) sets forth the requirements for *Audit Finding Detail*.

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Required Audit Finding Detail

(1) Identify:

- Federal Program Title and CFDA Number
- Federal Award Number and Year
- Name of Federal Agency and (if applicable)
Name of Pass-Through Agency

[A-133 ¶.510 (b) (1)]

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Required Audit Finding Detail

(2) Identify:

The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.

[A-133 ¶.510 (b) (2)]

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Helpful Sources of Criteria Information:

- The agreement \ contract



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Helpful Sources of Criteria Information:

- Code of Federal Regulations may be accessed online at:

<http://www.access.gpo.gov/nara/cfr/cfr-table-search.html#page1>

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Helpful Sources of Criteria Information:

- Catalog of Federal Domestic Assistance may be accessed online at: www.cfda.gov

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www.firstgov.gov site includes:

- In upper left corner, a link to websites of every Federal Department and agency (“A-Z Agency Index”)
- Includes tabbed portal pages for-
 - Governments
 - Businesses and Nonprofits
 - Citizens

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Required Audit Finding Detail

(5) Provide:

Information to provide proper perspective for judging the prevalence and consequences of the audit findings

[A-133 ¶.510 (b) (5)]

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Required Audit Finding Detail

(5) Provide:

Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value.

[A-133 ¶.510 (b) (5)]

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Required Audit Finding Detail

- (6) State the effect of the finding;
- (7) Make recommendations to prevent future occurrences; and
- (8) Present views of auditee officials when they disagree.

[A-133 ¶.510 (b) (6 through 8)]

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**Grouping Federal Programs
That Comprise Clusters**

OMB Compliance Supplement Part 5
Identifies Clusters of Federal
Programs:

- SFA Cluster
- R&D Cluster
- 26 Other Clusters covered in Part 4



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**Grouping Federal Programs
That Comprise Clusters**

Programs that comprise a Cluster:

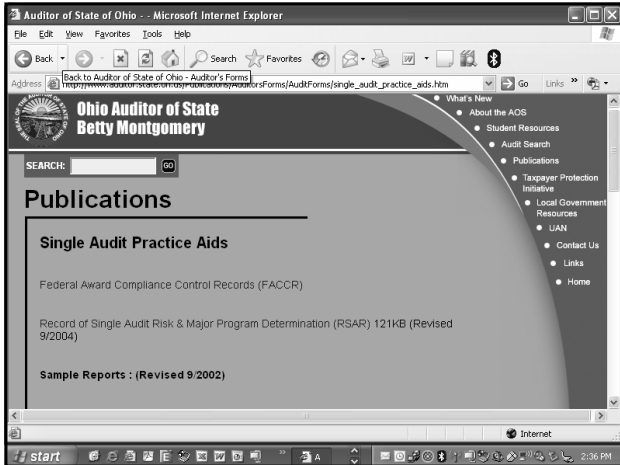
- Must be grouped and totaled on the SEFA
- Total expenditures for all programs comprising the cluster must be used for Major Federal Program Determination

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**Grouping Federal Programs
That Comprise Clusters**

- All programs comprising the cluster must be reported when the Cluster is selected as a Major Federal Program

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- **Single Audit Practice Aids**
- **Federal Award Compliance Control Records (FACCR) Record of Single Audit Risk & Major Program Determination (RSAR) 121KB (Revised 9/2004) Sample Reports : (Revised 9/2002)**
- **Combined Reports on Compliance and Internal Control - A - 133 100KB Sample Financial Statement Opinions 162KB Sample GAGAS Combined Reports 62KB Management Letter 22KB A-133 Forms : (Revised 9/2002)**
- **Instructions for Completing Data Collection Form 97KB Data Collection Form 278KB Schedule of Federal Awards Expenditures 100KB Schedule of Federal Awards Expenditures - Schools 102KB Schedule of Findings & Questioned Costs 42KB Schedule of Prior Findings & Questioned Costs 28KB Sample Corrective Action Plan 28KB Audit Representation Letters : (Revised 9/2002)**
- **GAAP 67KB Cash Basis 80KB Executive Overview 21KB ACT and Regulations :**
- **Single Audit Act Amendments of 1996 OMB Circular A-133 Links to Federal Web Sites :**
- **Federal Compliance Supplement March, 2005 March, 2004 March, 2003 AICPA Single Audit Site Federal OMB Single Audit Clearinghouse G Net Catalog of Federal Domestic Assistance Code of Federal Regulations Federal Office of Management and Budget Circulars**

**The New AICPA
Governmental Audit
Quality Center**



Governmental
Audit Quality Center

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AICPA Governmental Audit Quality Center

- ❖ Council authorized in October 2003 (also established EBP Audit Quality Center)
- ❖ Governmental audit practice is pervasive
 - > 6,300 AICPA firms involved
 - Thousands of single audits and other governmental audits annually
- ❖ Public interest high - federal \$\$\$

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What is a Governmental Audit for Purposes of the Center?

- ❖ All audits and attestation engagements performed under *Government Auditing Standards*
 - Yellow Book-only audits (for example, audit of local government that gets no federal funds but state requires Yellow Book audit)
 - Single and program-specific audits
 - Audits and attestation engagements performed under various federal audit guides (for example, HUD Consolidated Audit Guide, Education SFA Guide, etc.)
- ❖ Audit may be of a federal, state, or local government, not-for-profit organization, or certain for-profit organizations

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AICPA and Firm Commitment

- ❖ AICPA helps firms achieve the highest standards in performing quality governmental audits
- ❖ Center represents 80% of \$\$\$ audited by member Firms in the 2003 Clearinghouse
- ❖ Firm demonstrates its commitment to governmental audit quality (must adhere to membership requirements)

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GAQC Status

- ❖ Center launched at end of September 2004 and membership is growing
- ❖ Executive committee oversees Center and establishes membership requirements
- ❖ Center provides members with Web site, tools (including monthly newsletters, regular news alerts, best practices) and ability to interact with other members)
- ❖ Center undertaking outreach activities with stakeholder organizations to increase public awareness of the Center among members of the governmental audit community

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GAQC Web Site: www.aicpa.org/GAQC

- ❖ Comprehensive resource to Center members which includes:
 - The latest news and spotlight items regarding governmental audits
 - Resources regarding the performance of audits under *Government Auditing Standards*, Circular A-133, and other compliance audit rules
 - A listing of firms that belong to the Center sorted by firm name and state
 - Member forum so that firm members can interact with other members
- ❖ Some portions of the site are available to the general public and provide useful information

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Membership Requirements - Highlights

Effective at admission date:

- ❖ Designate audit partner to have firm-wide responsibility for quality of firm's governmental audit practice
- ❖ Require designated government audit quality partner to:
 - Meet GAS CPE requirements
 - Participate in an annual Center-sponsored webcast on recent developments in governmental auditing
- ❖ Make publicly available information about most recently accepted peer review

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Membership Requirements - Highlights

Other Membership Requirements:

- ❖ Establish annual internal inspection procedures within 3 months of admission date
- ❖ Establish policies and procedures specific to the firm's governmental audit practice to comply with professional standards and GAQC membership requirements (within 6 months of admission date)
- ❖ Have governmental audits selected as part of firm's peer review reviewed by a peer review team member who is employed by a Center member firm (Effective for 2006 peer reviews)

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For More Information

- Check out the Center Web Site at: www.aicpa.org/GAQC or E-Mail: GAQC@aicpa.org

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Questions ?????



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