

100 Introduction

100.1 From the 1960s to the present, federal awards to state and local governments and nonprofit organizations has grown from a few billion dollars to hundreds of billions of dollars annually. Along with these funds come certain restrictions and requirements that must be adhered to by the recipient organization. To ensure compliance with these requirements, the federal government relies on financial and compliance audits of the federal programs. In the beginning, the audits were performed on a grant-by-grant basis; however, the approach proved to be ineffective as well as inefficient. Studies found that this approach to auditing federal programs caused overauditing of some programs while other programs were never audited at all. This inconsistent approach to grant auditing with its gaps and duplications gave rise to the single audit approach.

100.2 The first single audit requirements were a result of the Single Audit Act of 1984 and the related Office of Management and Budget (OMB) Circulars A-128 (1985) and A-133 (1990). The Single Audit Act Amendments of 1996 replaced the Single Audit Act of 1984 in its entirety. The 1997 OMB Circular A-133 superseded the previous Circulars A-133, rescinded Circular A-128, and in other ways implemented the new Act. OMB Circular A-133 was revised twice since then.

100.3 OMB Circular A-133 has now been superseded in its entirety by OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance is located in 2 CFR part 200. Its audit requirements are located in 2 CFR part 200, subpart F (2 CFR sections 200.500-.521). The most current version of 2 CFR part 200 is in the Electronic Code of Federal Regulations (eCFR) at www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl. All together, the Uniform Guidance superseded eight OMB Circulars, including Circular A-133. (Section 111 has an in-depth discussion of the Uniform Guidance.)

100.4 The auditee's fiscal year end dictates whether the audit is to be conducted under Circular A-133 or under subpart F of the Uniform Guidance. The Uniform Guidance superseded OMB Circular A-133 effective for audits of periods beginning on or after December 26, 2014 (in essence, periods ending December 31, 2015, or later). *Auditors are not permitted to implement any of the provisions in subpart F for audits of periods ending before December 26, 2015.* Audits of those earlier periods (for example, periods ending June 30, 2015, or September 30, 2015) must still be conducted under OMB

Circular A-133. Section 111 provides an in-depth discussion of the Uniform Guidance.

100.5 Regardless of whether the audit is conducted under the audit requirements of OMB Circular A-133 or those of the Uniform Guidance, the auditor may need to test awards that are subject to two different sets of administrative requirements and cost principles. Award recipients have to implement new administrative requirements and cost principles for all new federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date. Previous awards and funding increments that do not have modified terms and conditions are subject to the previous administrative requirements and cost principles.

100.6 The OMB also issues the *OMB Compliance Supplement* (Compliance Supplement), which discusses compliance requirements and provides suggested audit procedures for numerous federal award programs. The Compliance Supplement is updated annually. The 2015 Compliance Supplement must be used for audits of fiscal years beginning after June 30, 2014. Thus, by necessity, it covers audits conducted under OMB Circular A-133 (for example, June 30, 2015, or September 30, 2015, year-ends) and also audits conducted under the Uniform Guidance (for example, December 31, 2015, or March 31, 2016, year-ends). It also provides guidance on awards that are subject to the administrative requirements and cost principles in the Uniform Guidance and those that are subject to the previous administrative requirements and cost principles. The 2015 Compliance Supplement is located in 2 CFR part 200, Appendix XI.

100.7 In addition, the AICPA annually updates its Audit Guide titled *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide) (previously titled *Government Auditing Standards and Circular A-133 Audits*), which provides guidance for financial statement audits performed under *Government Auditing Standards* (Part I), guidance for audits conducted under the Single Audit Act Amendments of 1996 and OMB Circular A-133 (Part II), and guidance for audits conducted under the Single Audit Act Amendments of 1996 and the Uniform Guidance (Part III).

100.8 AU-C 935, *Compliance Audits*, applies when an auditor is engaged, or legally required, to perform a compliance audit in accordance with all of the following: generally accepted auditing standards (GAAS), *Government Auditing Standards* requirements for financial audits, and a governmental audit requirement that requires an opinion on compliance (such as the Uniform Guidance). AU-C 935 requires the auditor to adapt and apply GAAS to a compliance audit and provides guidance on how to do so. See section 102.

Coverage in This Guide

100.9 This edition of *PPC's Guide to Single Audits* provides practical, comprehensive, and timely guidance covering single audit requirements for the CPA who audits the recipients of federal awards. This *Guide* is also useful to government auditors and to federal, state, and local government officials working in this area. This *Guide* fully incorporates the Uniform Guidance, the 2015 Compliance Supplement, and the 2015 edition of the GAS/SA Audit Guide. (Although this *Guide* includes some transition practice aids based on the content of the 2015 OMB Compliance Supplement that can be

used for audits conducted under OMB Circular A-133, auditors should generally refer to the guidance and practice aids in the 2014 edition of this *Guide* when doing OMB Circular A-133 audits.)

What Is a Single Audit?

100.10 A single audit (as distinguished from a grant-by-grant audit) is a term used in reference to an entity-wide audit consisting of two main parts: an audit of the financial statements and a compliance audit of the entity's major federal award programs. The audit of the major programs includes (a) gaining an understanding of and testing internal controls over compliance and (b) testing compliance with applicable compliance requirements for each major program. In a Uniform Guidance compliance audit, the applicable compliance requirements are those that may have a direct and material effect on each major program. In accordance with the concept, one auditor integrates the various programs' internal control and compliance auditing requirements with an audit of the entity's financial statements.

100.11 Not all state and local governments and nonprofit organizations that receive federal awards are subject to the single audit requirements. Under the Uniform Guidance, a nonfederal entity that expends less than \$750,000 in federal awards during its fiscal year is exempt from the single audit requirement for that year. The Single Audit Act Amendments of 1996 gives the Director of OMB the authority to change the single audit threshold every two years (except the amount can never be reduced below \$300,000). The Uniform Guidance changed the single audit threshold from \$500,000 to \$750,000. (See section 111.)

100.12 As noted in paragraph 100.4, the audit requirements in subpart F of the Uniform Guidance are applicable only for audits of periods ending December 31, 2015, or later. *None of the provisions in subpart F can be implemented for periods ending before then.* Audits of those earlier periods (e.g., periods ending June 30, 2015, or September 30, 2015) must still be conducted under OMB Circular A-133, including application of its \$500,000 threshold for determining whether a single audit is required.

Content and Organization of This Guide

100.13 Auditors who are familiar with *PPC's Guide to Audits of Local Governments* or *PPC's Guide to Audits of Nonprofit Organizations*, will see similarities in this *Guide*, which is organized in a similar manner but is not identical. Rather, this *Guide* builds on the guidance in *PPC's Guide to Audits of Local Governments* and *PPC's Guide to Audits of Nonprofit Organizations* and tailors that guidance to specific single audit situations. More in-depth guidance on a wider range of issues is provided. The chapters in Volume 1 provide an overview of authoritative single audit literature and standards and discuss in detail special conditions unique to single audits of local governments and nonprofit organizations. Volume 2 contains confirmation letters, checklists, worksheets, and audit programs specifically tailored to single audits of government and nonprofit organizations. Volume 2 also contains appendixes which identify acronyms used in this *Guide*, present a compendium of technical literature, and provide the transition practice aids for determination of major programs in an OMB Circular A-133 audit that reflect changes in the 2015 Compliance Supplement. A compendium of

government documents is provided in *PPC's Government Documents Library* (Library). The Library is provided to subscribers of this *Guide* at no extra charge. More detailed information about the Library is provided beginning at paragraph 109.37. References in this *Guide* to government documents included in the Library are indicated by Gov. Doc. No. XX. Subscribers to the *Guide* also receive optional self-study CPE courses.

100.14 Guidance on performing financial and compliance audits of HUD-assisted project owners is provided in *PPC's Guide to HUD Audits*. That *Guide* builds on the compliance auditing guidance contained in *PPC's Guide to Single Audits*.

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END OF DOCUMENT -

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- Checkpoint Contents
 - Accounting, Audit & Corporate Finance Library
 - Editorial Materials
 - Government
 - Single Audits
 - Chapter 1 Introduction and Overview
 - 101 Background and History

101 Background and History

Evolution of the Single Audit

101.1 Throughout the 1960s, the federal government supported a concept of grant-by-grant audits. Each federal agency or sponsor had its own individual program(s) audited to determine whether an entity had complied with applicable laws, regulations, contracts, and grant agreements. There were, however, a number of problems with this approach. Traditionally, the audit scope in these types of program audits was limited to an audit of the financial information for an individual program and tests of the recipient's compliance with terms of the specific contract or grant agreement. Many federal grantor agencies had their own audit guidelines and reporting requirements, and multiple guidelines often existed within a single federal agency. By the mid-1970s, the government had issued over 100 separate program audit guides which frequently provided confusing and sometimes conflicting approaches. The federal government began to develop and refine the “single audit” concept in the late 1970s. The single audit became law for state and local governmental grantees with the enactment of the Single Audit Act of 1984. Nonprofit organizations came under the single audit concept with the issuance of Office of Management and Budget (OMB) Circular A-133 in 1990.

101.2 **Government Auditing Standards (the Yellow Book)** As a partial response to the multitude of program audit guides, the U.S. Government Accountability Office ¹ (GAO) attempted to bring uniformity to audits of government organizations, programs, activities, and functions, and of governmental assistance received by certain entities including nonprofit organizations through the issuance of *Government Auditing Standards* [generally accepted government auditing standards (GAGAS) or the Yellow Book]. These standards were first issued by the GAO in 1972 and revised several times, most recently in 2011.

101.3 The Yellow Book standards relate to scope and quality of audit efforts and to the characteristics of a professional and meaningful audit report. They address the concerns of public officials, legislators, and the general public about whether governmental funds are handled properly and in compliance with existing laws and whether governmental programs are being conducted efficiently, effectively, and economically. The standards recognize that the American Institute of

Certified Public Accountants (AICPA) has adopted standards and procedures applicable to audits performed to express opinions on whether financial statements fairly present the financial position and results of operations. For financial audits, the Yellow Book incorporates the AICPA's field work and reporting standards and the related Statements on Auditing Standards, unless they are specifically excluded or modified. However, *Government Auditing Standards* fulfill broader interests and are identified as standards for "broad scope" auditing. The standards identify the ethical principles that are the foundation of governmental audits and establish requirements for the scope of audit work, auditor qualifications and independence, competence of the audit staff, exercise of professional judgment, and quality control and external peer reviews, as well as standards for planning, supervision, and reporting. Single audits conducted in accordance with the Uniform Guidance must be performed in accordance with *Government Auditing Standards*.

101.4 OMB Circular A-102 In 1972, the U.S. Office of Management and Budget (OMB) issued government-wide administrative regulations governing the administration of grants and contracts with state and local governments. This guidance was contained in OMB Circular A-102, *Uniform Requirements for Grants and Cooperative Agreements with State and Local Governments*. The Circular dealt with requirements that are primarily statutory in nature. Subsequently, in September 1972, the OMB issued additional sections or "attachments" that added the details of what would be required of federal funds. With the issuance of the attachments, the OMB had in place the basic principle of the single audit concept. A revised Circular A-102 titled *Grants and Cooperative Agreements with State and Local Governments* was issued in October 1994. A copy of the revised circular is included in *PPC's Government Documents Library* at Gov. Doc. No. 5.

101.5 OMB Circular A-102 has been superseded by the Uniform Guidance for all new federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date. Previous awards and funding increments that do not have modified terms and conditions are subject to the requirements in OMB Circular A-102. See section 111.

101.6 Inspector General Act of 1978 (Public Law 95-452) During 1978, Congress enacted legislation establishing inspectors general (IGs) in a number of federal agencies. The Inspector General Act created independent and objective units that would conduct and supervise audits and investigations of all agency programs and operations, of which grants are only a part. The Inspector General Act added another component to the administrative structure necessary to implement the single audit concept.

101.7 Inspector General Reform Act of 2008 (Public Law 110-409) In October 2008, Congress enacted legislation that amended the Inspector General Act of 1978. The Inspector General Reform Act of 2008 created the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is an independent entity within the executive branch of the federal government and replaces the PCIE (President's Council on Integrity and Efficiency) and the ECIE (Executive Council on Integrity and Efficiency), which are brought under its umbrella. (See paragraph 103.12.)

101.8 GAO Review In 1979, the GAO reviewed the status of federal grant auditing and found that

there was no single federal agency responsible for the oversight of all of the federal awards to a single recipient. Duplicate reviews and testing of internal controls and transactions occurred because different audit organizations simultaneously reviewed a single recipient organization. There were gaps in audit coverage as well. The audit approach and prescribed reporting formats varied widely, and generally were only of use to the federal grantor agencies because, usually, only an individual award, program, or grant was included in the report. These problems resulted in generally inefficient and costly audits. As a result of that review, the GAO made a number of recommendations:

- Designate a single cognizant federal agency for each recipient government.
- Direct cognizant agencies to use a standard audit guide for multifunded recipients.
- Develop a nationwide system to identify federal funding available to recipients.
- Require compliance with federal audit guidelines (i.e., the GAO “Yellow Book”).

101.9 **JFMIP Review** The Joint Financial Management Improvement Program (JFMIP), consisting of the heads of the GAO, OMB, U.S. Treasury, General Services Administration (GSA), and other selected federal officials, also issued a report in 1979 that reached basically the same conclusion as the GAO review—that piecemeal auditing resulted in duplication, overlaps, and gaps in audit coverage. The JFMIP made the following recommendations:

- Adopt a single audit approach.
- Identify material program and administrative requirements that should be reviewed in a single audit.
- Remove unnecessary or conflicting audit requirements in current legislation.
- Extend cognizant federal agency arrangements to provide oversight of single audits.
- Establish a system for reimbursing grantees for the federal government's share of audit costs.

- Determine the feasibility of establishing a single federal agency to be responsible for monitoring, overseeing, and auditing federally assisted programs.

- Establish a system for identifying where and by whom grant funds are being administered.

101.10 **Attachment P** In response to the recommendations by the GAO and the JFMIP, the OMB issued Attachment P to Circular A-102 in October 1979. Attachment P established audit policies applicable to federal financial assistance programs to state and local governments, and Indian tribes receiving federal financial assistance. Under the provisions of Attachment P, grant recipients would be assigned to the oversight of particular federal agencies (usually the agency that provided the greatest amount of federal financial assistance to the recipient). These agencies would be responsible for assuring that the grantees had an audit performed, that the audit was performed properly, and that the findings were resolved. The cognizant agency would provide any technical assistance needed by the grantee or by its auditors during the process. The Attachment required that a single audit be made of federal assistance programs managed or administered by individual governmental units and that the single audit report be accepted by all federal agencies. However, it did not cover nonprofit entities, nonfederal funds, or state and local government-controlled institutions of higher education or hospitals. Perhaps the most significant deficiencies of the Attachment were that it did not extend to a recipient's underlying general purpose financial statements, and it did not provide a method for reimbursing the grantee for the cost of the audit. Even with the issuance of Attachment P, the single audit concept was not effectively implemented because of many unanswered policy questions and lack of an administrative structure. Perhaps more importantly, there had not been a great deal of support from federal agencies, grant recipients, or the public accounting profession. The attachment was not extensively implemented during the period of 1979 through 1985, and, on April 12, 1985, it was superseded by OMB Circular A-128, which was issued pursuant to congressional directive under the Single Audit Act of 1984.

Single Audit Legislation

101.11 **The Single Audit Act of 1984** Congress passed the Single Audit Act of 1984 (P.L. 98-502, 31 U.S.C. 7501-7507) codifying many of the audit requirements established administratively under Attachment P to OMB Circular A-102. The objective of the Act was to establish uniform audit requirements and promote efficient and effective use of audit resources. The Act generally required audits of federal assistance recipients to be on an "entity-wide" basis, and it imposed requirements relating to the testing of, and reporting on, internal controls and compliance with laws and regulations. These requirements extended beyond generally accepted auditing standards (GAAS). The legislation addressed the somewhat controversial issue of payments for the conduct of required audits, making it clear that the work could be included as part of the indirect cost rate for the entity being audited or could be reimbursed from project funds of individual project or formula grants.

101.12 Four objectives relating to federal programs were stated in the Act:

- a. Improve financial management by state and local governments.
- b. Establish uniform audit requirements.
- c. Promote efficient and effective use of audit resources.
- d. Ensure reliance upon and use of audit work performed in keeping with the Single Audit Act.

101.13 Nonprofit organizations that received federal funding, either directly or indirectly through another level of government, were not required to comply with the Single Audit Act of 1984. However, when Congress was considering the single audit legislation, consideration was given to including nonprofit organizations in the legislation. Ultimately, Congress excluded nonprofit organizations but obtained a commitment from the Office of Management and Budget to develop audit policy for nonprofit organizations consistent with the provisions of the Single Audit Act.

101.14 **The Single Audit Act Amendments of 1996** In July 1996, the Single Audit Act Amendments of 1996 (Act) was signed into law. The five purposes of the Act (as stated in Section 1 of the Act) are to—

- Promote sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities.
- Establish uniform requirements for audits of federal awards administered by non-federal entities.
- Promote the efficient and effective use of audit resources.
- Reduce burdens on state and local governments, Indian tribes, and nonprofit organizations.
- Ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to Chapter 75 of title 31, United States Code (the Single Audit

Act), as amended by the 1996 Amendments to the Act.

101.15 Certain of the significant provisions of the Act include:

- Nonprofit organizations and nonprofit colleges and universities were for the first time covered under the Single Audit Act.
- The threshold for when a single or program-specific audit is required increased from \$25,000 to \$300,000, and the base on which the threshold is based changed from funds received to funds expended. The single audit threshold for fiscal years ending after December 31, 2003, was subsequently increased from \$300,000 to \$500,000. The single audit threshold for years ending December 31, 2015, and later was increased to \$750,000 by the Uniform Guidance.

Although the Uniform Guidance superseded many OMB Circulars, it had no effect on the Single Audit Act Amendments of 1996. The Act is still in effect.

OMB Audit Circulars

101.16 **OMB Circular A-128** In April 1985, the Office of Management and Budget issued Circular A-128, *Audits of State and Local Governments*, to implement the Single Audit Act of 1984. The Circular covered basically the same topics covered in the Single Audit Act and established audit requirements to satisfy the needs of federal program managers and other users of the auditor's reports. OMB Circular A-128 superseded Attachment P to OMB Circular A-102 and provided guidance to federal agencies and state and local governments on implementing the Act. OMB Circular A-128 was rescinded when the OMB revised Circular A-133 (see paragraph 101.19) in June 1997.

101.17 **1990 OMB Circular A-133** In March 1990, the OMB met its commitment to Congress and issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. The Circular applied to audits of financial statements of nonprofit organizations that received at least \$25,000 in federal financial assistance. Circular A-133 superseded the financial audit requirements of Attachment F, Paragraph 2.h., of OMB Circular A-110, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations—Uniform Administrative Requirements*. The 1990 Circular A-133 required an organization-wide audit, not a grant-by-grant review and, in many respects, paralleled the provisions of the Single Audit Act and OMB Circular A-128 for governmental entities. Public and nonprofit hospitals, colleges and universities, and other nonprofit organizations receiving federal financial awards were covered by Circular A-133; however, public hospitals, colleges, and universities could be audited under OMB Circular A-128 if they chose.

101.18 **1996 OMB Circular A-133** In April 1996, OMB issued a revised Circular A-133 that applied only to nonprofit organizations. As a result of the Single Audit Act Amendments of 1996, the 1996

OMB Circular A-133 was superseded by the 1997 OMB Circular A-133 without becoming effective.

101.19 **1997 OMB Circular A-133** In June 1997, OMB issued a revised Circular A-133 titled *Audits of States, Local Governments, and Non-Profit Organizations* to implement the changes from the 1996 Act and rescind OMB Circular A-128. A “provisional” version (see paragraph 703.4) of the companion compliance supplement was also issued in June 1997. The Compliance Supplement has been revised annually since 1997. The stated purposes of the 1997 OMB Circular A-133 included bringing its provisions into conformity with the requirements of the new Act and certain other clarifying changes. Certain of the more significant provisions of the 1997 OMB Circular A-133 included:

- Increasing coverage to include state and local governments in addition to nonprofit organizations and rescinding OMB Circular A-128.

- Increasing the threshold for when a single audit (or program-specific audit) is required from \$25,000 to \$300,000 (\$500,000, for fiscal years ending after December 31, 2003) and changing the basis for determining federal awards from receipts to expenditures.

- Requiring use of a risk-based approach for determining major programs.

- Requiring testing of internal controls over compliance for a low control risk level. (It does not require achieving a low control risk level.)

- Requiring an opinion (or a disclaimer of opinion) on compliance.

- Prohibiting charging to a federal award the cost of single audits of subrecipients with total federal awards expended of less than \$300,000 (\$500,000, for fiscal years ending after December 31, 2003). (The cost of certain limited-scope audits to monitor subrecipients, however, is chargeable.)

101.20 In June 2003, the OMB amended OMB Circular A-133 to raise the single audit and cognizant agency thresholds and to make other technical changes.

101.21 In June 2007, the OMB revised Circular A-133 to (a) update the internal control terminology and related definitions used in the circular and (b) simplify submission of the reporting package to the Federal Audit Clearinghouse. In March 2010, the OMB posted a statement at the beginning of OMB

Circular A-133 stating that, where the Circular refers to *material weaknesses* and *significant deficiencies*, the terms are to be used as defined in generally accepted auditing standards issued by the AICPA and *Government Auditing Standards* issued by the GAO. This statement enabled auditors to use the current internal control definitions in OMB Circular A-133 audits of compliance.

101.22 **Uniform Guidance** In December 2013, OMB published in the Federal Register *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Uniform Guidance superseded eight OMB Circulars, including Circular A-133. Section 111 provides more-detailed information on the Uniform Guidance, including its multiple effective dates.

Recent Significant Legislation Related to Federal Awards

101.23 **American Recovery and Reinvestment Act of 2009** The American Recovery and Reinvestment Act of 2009 (“Recovery Act” or “ARRA”), which was enacted in February 2009, has provided almost \$800 billion in stimulus funds, of which approximately \$300 billion was passed through federal agencies to entities that generally are subject to single audit requirements, including state and local governments, nonprofit organizations, and institutions of higher education. The Recovery Act established unprecedented transparency and accountability requirements. Although expenditures of Recovery Act programs are winding down, the Recovery Act may still affect some single audits. The Recovery Act is discussed in section 110.

101.24 **Federal Funding Accountability and Transparency Act** As indicated by its name, the Federal Funding Accountability and Transparency Act (“Transparency Act” or “FFATA”) also mandates increased accountability and transparency for federal awards. The Transparency Act establishes compliance requirements that relate to subaward reporting by primary recipients for federal awards. However, coverage of FFATA requirements was removed from the Compliance Supplement effective with the 2015 update.

¹ In July 2004, the General Accounting Office changed its legal name to the Government Accountability Office.

END OF DOCUMENT -

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Checkpoint Contents

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Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

102 Compliance Audits

102 Compliance Audits

102.1 AU-C 935, *Compliance Audits*, applies when an auditor is engaged, or required by law or regulation, to perform a compliance audit in accordance with all of the following—

- Generally accepted auditing standards;
- *Government Auditing Standards* requirements for financial audits; and
- A governmental audit requirement that requires an opinion on compliance, such as the Uniform Guidance.

102.2 AU-C 935 does not apply to the financial statement audit component of a single audit. It requires auditors to use professional judgment to adapt and apply relevant GAAS to the audit of compliance and provides guidance on how to do so. However, this does not mean the auditor has to literally translate every procedure applicable in a financial statement audit. Instead, the auditor should modify and apply the GAAS procedures considered relevant and necessary for obtaining sufficient appropriate audit evidence to support an opinion on compliance.

102.3 The GAS/SA Audit Guide, Paragraph 16.06, indicates that AU-C 935.06 notes that some sections of GAAS can be adapted and applied to a compliance audit with relative ease. This might be done, for example, by replacing the word *misstatement* with the word *noncompliance*. However, other sections are more difficult to adapt and apply without further modification. Accordingly, AU-C 935 provides specific guidance on how to adapt certain AU-C sections to a compliance audit. The GAS/SA AICPA Audit Guide goes even further and provides specific guidance on adapting them to a Uniform Guidance compliance audit.

102.4 Some sections of GAAS generally cannot be adapted and applied to a compliance audit. The Appendix at AU-C 935.A41 lists several sections that are not applicable, either because (a) they are *not* relevant to a compliance audit, (b) they would not contribute to meeting the audit objectives, or (c) the subject matter is specifically covered by AU-C 935. (The auditor is not precluded from applying the listed standards if he or she believes they will provide appropriate evidence to support the opinion on compliance in the circumstances.)

Definitions of Key Terms

102.5 AU-C 935.11 provides definitions for several terms that are specific to compliance audits, including the following:

- *Audit Risk of Noncompliance.* The risk that the auditor expresses an inappropriate audit opinion on compliance when material noncompliance exists. Audit risk of noncompliance is a function of the risks of material noncompliance and detection risk of noncompliance.

- *Compliance Audit.* A program-specific audit or an organization-wide audit of an entity's compliance with applicable compliance requirements.

- *Compliance Requirements.* Laws, regulations, rules, and provisions of contracts or grant agreements applicable to government programs that require compliance by an entity. *Applicable compliance requirements* are those that are subject to the compliance audit.

- *Deficiency in Internal Control over Compliance.* A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis.
 - *Deficiency in Design.* A control necessary to meet the control objective is missing or an existing control is not properly designed so that, even if it operates as designed, the control objective would not be met.

 - *Deficiency in Operation.* A properly designed control does not operate as designed or the person performing the control does not have the necessary authority or competence to perform it effectively.

- *Detection Risk of Noncompliance.* The risk that the procedures performed by the auditor to reduce audit risk of noncompliance to an acceptably low level will not detect noncompliance that exists and that could be material, either individually or when aggregated, with other instances of noncompliance.

- *Governmental Audit Requirement.* A government requirement established by law, regulation, rule, or provision of contracts or grant agreements that an entity obtain an audit of its compliance with applicable compliance requirements of government programs.

- *Government Program.* The means by which a government achieves its objectives. For example, the National School Lunch Program is intended to achieve the USDA objective of providing nutrition to individuals in need. Government programs that are relevant for compliance audit purposes are those where a grantor or pass-through entity provides an award to another entity, usually in the form of a grant, contract, or other agreement.

- *Material Noncompliance.* A failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.

- *Material Weakness in Internal Control over Compliance.* A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of the event is either reasonably possible or probable.

- *Organization-wide Audit.* An audit of an entity's financial statements and an audit of its compliance with the applicable compliance requirements as they relate to one or more government programs that the entity administers.

- *Program-specific Audit.* An audit of an entity's compliance with applicable compliance requirements as they relate to one government program that the entity administers. The

compliance audit portion of a program-specific audit is performed in conjunction with an audit of either the entity's financial statements or the program's financial statements.

- *Questioned Costs*. Costs that are questioned by the auditor because they (a) violate (or possibly violate) the applicable compliance requirements, (b) are not supported by adequate documentation, or (c) appear unreasonable and do not reflect the actions of a prudent person under the circumstances.

- *Risk of Material Noncompliance*. The risk that material noncompliance exists prior to the audit. This consists of the inherent risk of noncompliance and the control risk of noncompliance.

- *Inherent Risk of Noncompliance*. The susceptibility of a compliance requirement to noncompliance that could be material, either individually or when aggregated with other instances of noncompliance, before consideration of any related controls over compliance.

- *Control Risk of Noncompliance*. The risk that noncompliance with a compliance requirement that could occur and that could be material, either individually or when aggregated with other instances of noncompliance, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control over compliance.

- *Significant Deficiency in Internal Control over Compliance*. A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Compliance Audit Objectives

102.6 AU-C 935.10 explains that the auditor has the following objectives in a compliance audit:

- To obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirement on whether the entity complied in all material respects with the applicable compliance requirements. The GAS/SA Audit Guide, at Paragraph 20.02, notes that in a Uniform Guidance audit of compliance, the applicable compliance

requirements are the direct and material compliance requirements.

- To identify audit and reporting requirements specified in the governmental audit requirement that are supplementary to GAAS and *Government Auditing Standards*, if any, and perform procedures to address those requirements.

Performance Requirements

102.7 While AU-C 935 provides guidance on adapting and applying GAAS in a compliance audit, its requirements extend beyond GAAS for financial audits. Significant requirements for performing a compliance audit are discussed in the following paragraphs.

102.8 **Establish Materiality** AU-C 935.13 states that the auditor should determine and apply materiality levels based on the governmental audit requirement. AU-C 935.A6 states that, in a compliance audit, materiality levels are used for:

- a. Determining the nature and extent of risk assessment procedures.
- b. Identifying and assessing the risks of material noncompliance.
- c. Determining the nature, timing, and extent of further audit procedures.
- d. Evaluating whether the entity complied with the applicable compliance requirements.
- e. Reporting findings of noncompliance and other matters required to be reported by the governmental audit requirement.

The GAS/SA Audit Guide, Paragraph 16.49, provides the same guidance but references the direct and material compliance requirements in item d.

102.9 Usually, materiality is determined in relation to a government program as a whole. However, governmental audit requirements might require a different level of materiality. For example, the Uniform Guidance establishes a lower materiality threshold for reporting findings of noncompliance. It requires the auditor to report noncompliance that is material to the type of compliance requirement (e.g., allowable costs, program income, etc.). Paragraph 16.47 of the GAS/SA Audit Guide explains

that, in a compliance audit, the auditor's judgment about matters that are material is based on consideration of the needs of users as a group, including grantors.

102.10 Identify Programs and Compliance Requirements to Test Although management is responsible for identifying government programs and understanding and complying with their compliance requirements, AU-C 935.14 states that the auditor should determine which programs and compliance requirements to test (i.e., the applicable compliance requirements). AU-C 935 cites the Compliance Supplement as a framework for determining applicable compliance requirements. In a Uniform compliance audit, the applicable compliance requirements are those that may have a direct and material effect on each major program.

102.11 The Compliance Supplement is the primary source for identifying compliance requirements for federal programs, and the auditor, using professional judgment, determines which of the 12 types of compliance requirements may have a direct and material effect on each major program. (The number of types of compliance requirements was reduced from 14 to 12 in the 2015 Compliance Supplement. See section 708.) These direct and material compliance requirements are tested as part of the compliance audit. Part 7 of the Compliance Supplement provides guidance on determining the direct and material compliance requirements for programs not included in the Compliance Supplement. It instructs auditors to, among other things, review the federal award document and referenced laws and regulations applicable to the program and the Catalog of Federal Domestic Assistance. A program-specific audit guide issued by a grantor agency may be another source for identifying applicable compliance requirements.

102.12 AU-C 935.A11 provides the following additional examples of procedures the auditor might consider for determining applicable compliance requirements:

- Read laws, regulations, rules, and provisions of contracts or grant agreements that relate to the program being audited.

- Make inquiries of management and other knowledgeable individuals (both inside and outside the entity).

- Read minutes of governing board meetings.

- Read documentation of applicable compliance requirements from previous audits or other engagements and, if applicable, discuss them with auditors who performed the prior audits or other engagements.

102.13 Perform Risk Assessment Procedures AU-C 935.15 states that the auditor should perform

risk assessment procedures to obtain an understanding of compliance requirements and related internal control over such compliance requirements for each program and compliance requirement selected for testing. The procedures should include:

- Inquiring of management about whether reports or other written communications from previous audits, attestation engagements, and internal or external monitoring have findings and recommendations that directly relate to the objectives of the compliance audit.
- Obtaining an understanding of management's response (for example, corrective actions) to findings and recommendations that could have a material effect on compliance with the applicable compliance requirements.
- Using the information obtained about the findings and recommendations to assess risk and determine the nature, timing, and extent of compliance audit procedures, including procedures to test corrective actions.

Paragraph 16.30 of the GAS/SA Audit Guide explains that obtaining an understanding of the major program, the direct and material compliance requirements, and internal control over compliance establishes a frame of reference within which the auditor plans the compliance audit and exercises professional judgment regarding assessing risks of material noncompliance and responding to those risks during the audit.

102.14 AU-C 935.A13 states that the nature and extent of risk assessment procedures may vary among entities and are influenced by factors such as the following:

- The newness and complexity of the applicable compliance requirements.
- The nature of the compliance requirement.
- The auditor's knowledge of the entity's internal control over compliance with the applicable compliance requirements obtained in previous audits or other engagements.
- The services provided by the entity and how external factors affect the services.

- The amount of oversight by the grantor or pass-through entity.

- The ways management addresses findings.

The GAS/SA Audit Guide, Paragraph 16.31, provides the same guidance but references the direct and material compliance requirements in the first and third items.

102.15 Assess Risks of Material Noncompliance AU-C 935.17 states that for each applicable compliance requirement, the auditor should assess the risks of material noncompliance, whether due to error or fraud, and consider whether any of those risks might affect multiple compliance requirements (that is, whether the risks are pervasive). For example, there might be a pervasive risk of noncompliance if the entity has financial difficulties that present an increased risk of grant funds being used for unauthorized purposes, or if the entity has poor record-keeping for government programs. The auditor should develop an overall response to any pervasive risks of material noncompliance that are identified. The GAS/SA Audit Guide, Paragraph 16.36, provides the same guidance but references the direct and material compliance requirements.

102.16 AU-C 935.A16 indicates that, in assessing the risks of material noncompliance, the auditor might consider several factors, including the following:

- The complexity of the applicable compliance requirements, their susceptibility to noncompliance, and the length of time the entity has been subject to them.

- The auditor's knowledge about the entity's compliance with the applicable compliance requirements in prior years.

- The potential effect on the entity of noncompliance with applicable compliance requirements.

- The amount of judgment needed to satisfy the compliance requirements.

- The auditor's assessed risks of material misstatement in the financial statement audit.

The GAS/SA Audit Guide, Paragraph 16.39, provides the same guidance but references the direct and material compliance requirements.

102.17 Perform Further Audit Procedures The auditor should design and perform further audit procedures in response to the assessed risks of material noncompliance. AU-C 935.19 states that risk assessment procedures, tests of controls, and analytical procedures alone are not sufficient to address a risk of material noncompliance. The auditor should design and perform further audit procedures, including tests of details or transactions, to obtain sufficient appropriate audit evidence about compliance with each of the applicable compliance requirements.

102.18 Tests of Details and Tests of Transactions. Further audit procedures should include tests of details and may include tests of transactions. For example, tests of details (and tests of transactions) might be performed in the following areas:

- Grant disbursements or expenditures.

- Eligibility files.

- Cost allocation plans.

- Periodic reports filed with grantor agencies.

102.19 Tests of Controls. AU-C 935.20 states that the auditor also should perform tests of controls over each applicable compliance requirement if any of the following conditions apply:

- The risk assessment includes an expectation of the operating effectiveness of controls over compliance related to the applicable compliance requirement.

- Substantive procedures alone do not provide sufficient appropriate audit evidence.

- Tests of controls over compliance are required by the governmental audit requirement, for example, by the Uniform Guidance.

The GAS/SA Audit Guide, Paragraph 19.13, provides the same guidance but references the direct and material compliance requirements.

102.20 There is an important difference in GAAS between tests of controls in a financial statement audit and tests of controls in a compliance audit. In a financial statement audit, the auditor can use

audit evidence about the operating effectiveness of controls obtained in prior audits. However, Paragraph 19.35 of the GAS/SA Audit Guide points out that AU-C 935 specifically excludes the applicability of AU-C 330.13-.14 and 330.31, which address the use of evidence about the effectiveness of controls obtained in prior audits. Therefore, in a compliance audit, the auditor is not permitted to use evidence about the operating effectiveness of controls obtained in prior audits.

102.21 Paragraph 19.32 of the GAS/SA Audit Guide explains, however, that consideration of the results of prior years' tests can provide important information for planning tests of controls in the current compliance audit. If the results of the prior tests of controls prevented the auditor from assessing a low level of control risk of noncompliance, the auditor might consider expanding the testing in the current audit. Testing changes in internal control over compliance that were intended to eliminate deficiencies noted in the previous year might also provide relevant information. If, however, the auditor concluded in the prior year that internal control over compliance for one or more compliance requirements was ineffective and no changes were made to the internal control over compliance, the auditor might determine that controls are not likely to be effective and may choose not to plan and perform tests of controls.

102.22 Guidance in Paragraph 19.65 of the GAS/SA Audit Guide, however, explains that in the year a nonfederal entity implements the Uniform Guidance the results of prior years' tests of controls might not be relevant to planning for the current year's audit. This is because the process of implementing the Uniform Guidance may make it necessary for nonfederal entities to change or update their internal controls. The auditor should consider those changes when obtaining an understanding of internal control over compliance, assessing risk, and testing controls.

102.23 **Determine Supplementary Governmental Audit Requirements** AU-C 935.21 states that the auditor should determine applicable governmental audit requirements that are supplementary to GAAS and *Government Auditing Standards*, and perform procedures to address those requirements. For example, supplementary audit requirements include Uniform Guidance requirements that the auditor (a) perform specific procedures to identify major programs and (b) follow up on prior audit findings and perform procedures to assess the reasonableness of the summary schedule of prior audit findings.

102.24 Outdated or Conflicting Guidance. If audit guidance provided by a governmental agency has not been updated for, or otherwise conflicts with, current GAAS or *Government Auditing Standards*, AU-C 935.22 requires the auditor to comply with the most current applicable GAAS and *Government Auditing Standards*, rather than the outdated or conflicting guidance. In that situation, the auditor may want to consult with the governmental entity that established the audit guidance or provided the funding.

102.25 **Request Management Representations** The auditor should request written representations from management. AU-C 935.23 indicates the representations should be tailored to the entity and the governmental audit requirement. Representations to be obtained in a Uniform Guidance compliance audit are discussed in paragraph 1003.12 and are included in the example representation letters at GSA-CL-2.1, GSA-CL-2.2, and GSA-CL-2.3.

102.26 Perform Subsequent Events Procedures Subsequent events procedures should be performed up to the date of the auditor's report to obtain sufficient appropriate audit evidence that all subsequent events related to compliance during the period covered by the auditor's report on compliance have been identified. AU-C 935.26 and the GAS/SA Audit Guide, Paragraph 20.46, state that the nature and extent of such procedures should take into account the auditor's risk assessment and should include, but not be limited to, inquiring of management about and considering the following:

- Relevant reports issued by internal auditors during the subsequent period.
- Reports issued by other auditors during the subsequent period identifying noncompliance.
- Reports on noncompliance issued by federal awarding agencies and pass-through entities during the subsequent period.
- Information about noncompliance obtained through other engagements performed for the entity.

102.27 Noncompliance after the Report Date. The auditor is not required to perform procedures related to noncompliance occurring after the period covered by the auditor's report. However, the auditor should discuss with management and, if appropriate, those charged with governance any such noncompliance that the auditor becomes aware of before the report release date if disclosure of the noncompliance is necessary to keep the report from being misleading. An example of such a matter might be noncompliance occurring in the subsequent period that was so significant the grantor stopped funding the program. The auditor's report should include an other-matter paragraph (AU-C 935.27) describing the nature of such noncompliance.

102.28 Evaluate the Sufficiency and Appropriateness of Audit Evidence AU-C 935.28 states that the auditor should evaluate the sufficiency and appropriateness of audit evidence obtained. The GAS/SA Audit Guide, Paragraph 20.52, explains that this may include consideration of the following factors:

- The frequency and nature of noncompliance with the direct and material compliance requirements identified.
- The adequacy of the entity's system for monitoring compliance with the direct and material compliance requirements and the possible effect on the entity of any noncompliance.

- Whether identified noncompliance with the direct and material compliance requirements resulted in likely questioned costs that are material to the program.

The evaluation of noncompliance identified by the auditor includes noncompliance that was corrected after being brought to management's attention. AU-C 935.A31 provides similar guidance.

Reporting Requirements

102.29 The auditor's report on compliance should include an opinion (or disclaimer of opinion) on whether the entity complied in all material respects with the applicable compliance requirements. The opinion should be at the level specified by the governmental audit requirement. For example, the Uniform Guidance, at 2 CFR section 200.515(c), requires an opinion (or disclaimer of opinion) on whether the entity complied, in all material respects, with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program.

102.30 AU-C 935.29 states that, in forming an opinion, the auditor should evaluate (a) known and likely questioned costs and (b) other material noncompliance that, typically, might not have questioned costs. For example, noncompliance with a Compliance Supplement reporting requirement typically does not result in questioned costs.

102.31 Noncompliance and other matters should be reported in the manner specified by the governmental audit requirement. If the other matters are not appropriate to report on, for example, if a printed form, schedule, or report requires the auditor to make a statement that he or she does not have a basis to make, the document should be reworded. Alternatively, the auditor could attach a separate report that is appropriately worded.

102.32 The GAS/SA Audit Guide, Paragraph 23.06, recommends issuing a combined report on compliance and internal control over compliance. Alternatively, the auditor might issue two separate reports—a report on compliance and a report on internal control over compliance. Compliance audit reports are discussed in section 1106.

Communication with Those Charged with Governance

102.33 AU-C 935.37 states that the auditor should communicate the following to those charged with governance:

- The auditor's responsibilities under GAAS, *Government Auditing Standards*, and the governmental audit requirement.
- An overview of the planned scope and timing of the compliance audit.

- Significant findings from the compliance audit.

Documentation

102.34 The GAS/SA Audit Guide, Paragraphs 19.58 and 20.70, indicates that, in a compliance audit, the auditor should document the following:

- The risk assessment procedures performed, including procedures to obtain an understanding of internal control over compliance (AU-C 935.39).
- The auditor's responses to the assessed risks of material noncompliance, procedures performed to test compliance with the direct and material compliance requirements, and the results of those procedures, including any tests of controls over compliance (AU-C 935.40).
- Materiality levels and the basis on which they were determined (AU-C 935.41).
- How the auditor complied with specific governmental audit requirements that are supplementary to the requirements of GAAS and *Government Auditing Standards* (AU-C 935.42).

102.35 An Emphasis Point at Paragraph 20.70 of the GAS/SA Audit Guide points out that some quality control reviews performed by federal agencies had findings in which audit documentation did not provide sufficient evidence that work was performed to support the auditor's opinion(s) on compliance. In certain cases, the audit documentation did not (a) contain evidence that the auditor tested certain compliance requirements applicable to a major program or (b) explain why certain compliance requirements identified in the Compliance Supplement as being generally applicable were not considered by the auditor as applicable to a major program. Among other things, the auditor should document the individual tests performed and the results of those tests.

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Checkpoint Contents

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Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

103 Federal and Pass-through Agency Roles

103 Federal and Pass-through Agency Roles

103.1 It is important to understand the roles of the various federal and pass-through agencies involved in the single audit process. The following sections discuss the respective roles of the Government Accountability Office (GAO), Office of Management and Budget (OMB), cognizant agencies for audit, oversight agencies for audit, cognizant agencies for indirect costs, federal awarding agencies, pass-through entities, Inspectors General (IGs), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Government Accountability Office (GAO)

103.2 The Comptroller General of the United States heads the Government Accountability Office (GAO), which has a number of responsibilities, including:

- Performing auditing, accounting, legal, and claims settlement activities for federal programs and operations.
- Assisting Congress in its legislative and oversight responsibilities.
- Making economy and efficiency recommendations.

The GAO's audit responsibilities include federal programs and activities, state and local government activities, quasi-governmental bodies, and private and nonprofit organizations that receive federal awards. The agency also reviews new legislative proposals that require financial, or financial and compliance audits of recipients of federal awards. The GAO develops, updates, and issues *Government Auditing Standards* (paragraph 101.2), which applies to audits of governmental organizations, programs, activities, and functions, and of governmental assistance received by

contractors, nonprofit organizations, and other nongovernmental organizations.

Office of Management and Budget (OMB)

103.3 The OMB was established in 1970 as the successor to the Bureau of the Budget. It provides federal agencies with guidance and standards for accounting, budgeting, financial management, grants, and contracts. The director of the OMB is required to prescribe policies, procedures, and guidelines to implement the Single Audit Act, as amended. The Director of OMB designates “cognizant” federal agencies to assist in administering the single audit and determine criteria for making appropriate charges to federal programs for the costs of single audits. The director is also charged with the responsibility of assuring that small and minority-owned firms have an opportunity to participate in single audits. The OMB was charged with the responsibility for coordinating the development of government-wide guidance on implementing the requirements of the American Recovery and Reinvestment Act of 2009. (See section 110.)

Cognizant Agencies for Audit

103.4 The role of the various federal cognizant agencies for audit includes providing technical assistance, oversight, audit quality assurance, and other responsibilities described in the Uniform Guidance. The Uniform Guidance, at 2 CFR section 200.513(a)(1), states that for nonfederal entities expending more than \$50 million a year in federal awards, the designated cognizant agency for audit must be the federal awarding agency that provides the predominant amount of direct funding unless OMB designates a specific cognizant agency for audit. However, 2 CFR section 200.513(a)(3) allows reassignment of cognizance. With respect to single audit matters, the cognizant agency for audit acts on behalf of all other federal agencies providing federal awards to the nonfederal entity. This is intended to relieve the client and auditor from having to deal with several agencies on single audit matters. Assignment and responsibilities of cognizant agencies for audit are discussed in detail beginning at paragraph 402.1.

103.5 The Uniform Guidance establishes a requirement for quality control reviews by cognizant agencies for audit. 2 CFR section 200.513(a)(3)(ii) states that the cognizant agency for audit must “obtain or conduct quality control reviews on selected audits made by non-Federal auditors, and provide the results to other interested organizations.” The cognizant agency for audit is also required to—

- Provide to the federal agency designated by OMB to lead a government-wide project on the quality of single audits, a statistically reliable estimate of the extent that single audits conform to applicable requirements, standards, and procedures; and make recommendations that address noted audit quality issues.
- Inform the community of independent auditors about noteworthy or important factual trends related to the quality of audits stemming from quality control reviews.

- Refer significant problems or quality issues that are consistently identified through quality control reviews of audit reports to appropriate state licensing agencies and professional bodies.

Oversight Agencies for Audit

103.6 The oversight agency for audit is responsible for the general oversight of entities that are not assigned a cognizant agency for audit. The oversight agency for audit is the federal awarding agency that provides the predominant amount of direct funding (or indirect funding when there is no direct funding). While the role of an oversight agency for audit is similar to that of a cognizant agency for audit, the responsibilities of an oversight agency for audit are not as broad as those of a cognizant agency for audit. Although they may assume additional responsibilities, the primary role of an oversight agency for audit is to provide technical advice to auditees and auditors. Determination and responsibilities of oversight agencies for audit are discussed in detail beginning at paragraph 402.5.

Cognizant Agencies for Indirect Costs

103.7 The cognizant agency for indirect costs is the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all federal agencies. The cognizant agency for indirect costs may be different from the cognizant agency for audit. Generally, but not always, the cognizant agency for indirect costs is the federal agency with the largest dollar value of federal awards with a nonfederal entity. Guidelines for determining the cognizant agency for indirect costs are contained in the following appendices to 2 CFR part 200:

- Appendix III: Institutions of higher education.
- Appendix IV: Nonprofit organizations.
- Appendix V: State and local governments.
- Appendix VII: Indian tribes.

Federal Awarding Agencies

103.8 2 CFR section 200.513(c) lists the following responsibilities of a federal awarding agency:

- Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of 2 CFR part 200.

- Provide technical advice and counsel to auditees and auditors as requested.

- Follow-up on audit findings to ensure that the recipient takes appropriate and timely corrective action. In doing so, the agency must:
 - Issue a management decision as prescribed in 2 CFR section 200.521.

 - Monitor the recipient, taking appropriate and timely corrective action.

 - Use cooperative audit resolution mechanisms to improve federal program outcomes through better audit resolution, follow-up, and corrective action. (*Cooperative audit resolution mechanisms* are defined in 2 CFR section 200.25 as audit follow-up techniques that promote prompt corrective action by improving communication, fostering collaboration, promoting trust, and developing an understanding between the federal agency and the nonfederal entity.)

 - Develop a baseline, metrics, and targets to track the effectiveness of the federal agency's process to follow-up on audit findings and the effectiveness of single audits in improving the accountability of nonfederal entities and their use by federal awarding agencies in making award decisions.

- Provide OMB with annual updates to the Compliance Supplement and work with OMB to ensure that the Compliance Supplement focuses the auditor to test compliance requirements that are most likely to cause improper payments, fraud, waste, or abuse, or to generate audit findings for which the federal awarding agency will impose sanctions.

- Provide OMB with the name of a single audit accountable official from among the agency's senior policy officials.

- Provide OMB with the name of a key management single audit liaison.

Pass-through Entities

103.9 2 CFR section 200.74 defines a pass-through entity as a nonfederal entity (state, local government, Indian tribe, institution of higher education, or nonprofit organization) that provides a subaward to a subrecipient to carry out part of a federal program. The responsibilities of a pass-through entity are discussed in section 801.

Inspectors General (IG)

103.10 The Inspector General Act of 1978 established inspectors general in a number of federal agencies. The Act created independent and objective organizations to conduct and supervise audits and investigations of all agency programs and operations of which grants were only a part. The role of the cognizant agency for audit is usually filled by the IG from the agency providing the predominant amount of federal funds to the nonfederal entity. The IGs are appointed by the president and confirmed by the Senate, and they must report their activities to Congress semiannually.

103.11 **Quality Control Review Responsibilities** The OMB has instructed the Offices of Inspector General (OIGs) to perform quality control reviews to ensure that single audits are properly performed and improper payments and other noncompliance are fully reported. Due to the recent focus on transparency and accountability, OIGs have stepped up their use of quality control reviews. (Paragraph 103.5 discusses requirements in the Uniform Guidance for cognizant agencies for audit to conduct quality control reviews.)

Council of the Inspectors General on Integrity and Efficiency (CIGIE)

103.12 The Inspector General Reform Act of 2008 created the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and nullified the Executive Order, which had established the President's Council on Integrity and Efficiency in Government (PCIE) in March 1981. In effect, the PCIE and the related Executive Council on Integrity and Efficiency (ECIE) were incorporated into the CIGIE. The mission of CIGIE is to (a) address integrity, economy, and effectiveness issues that transcend federal agencies and (b) increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to help establish a highly skilled workforce in the Offices of the Inspectors General. The CIGIE has seven committees: audit, human resources, information technology, inspection and evaluation, investigations, integrity, and legislation.

103.13 The audit committee of CIGIE is responsible for leading improvement in audit quality, coordinating government-wide audits, and enhancing audit professionalism. In March 2009, the audit committee issued "Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector Generals." The guide is intended to provide policy guidance to the CIGIE on implementation of the Yellow Book's general standard on quality control and assurance.

While the guidance is targeted toward federal agencies, it provides information, including Appendix C, “Checklist for Review of Financial Audits Performed by the Office of Inspector General,” and Appendix F, “Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm,” that might be beneficial to external auditors.

103.14 The *March 2009 Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General* was based on the 2007 Revision to *Government Auditing Standards*. In 2012, the March 2009 Guide and several appendixes were updated for the 2011 Yellow Book. The updated appendixes include:

- Appendix A, *Policies and Procedures*
- Appendix B, *Checklist for Review of Adherence to General Standards*
- Appendix F, *Checklist for Review of Monitoring of Audit Work Performed by an Independent Public Accounting Firm*

The updated guide and appendixes, as well as several peer review training documents, are available on CIGIE's website www.ignet.gov/content/manuals-guides.

103.15 In 2010, the CIGIE issued the following updated guidance for performing desk reviews and quality control reviews of OMB Circular A-133 audits:

- *Guide for Desk Reviews of OMB Circular A-133 Audit Reports.*
- *Guide for Quality Control Reviews of OMB Circular A-133 Audits.*

These CIGIE guides were updated in 2015. However, the introduction to each guide specifically states it was not updated for and should not be used for reviewing single audits performed in accordance with the Uniform Guidance. The 2015 guides are available on the CIGIE's website www.ignet.gov/content/manuals-guides.

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104 Applicability of the Single Audit

Applicability to Non-federal Entities

104.1 Single audits apply to “recipients” that expend specified amounts of federal awards. The Uniform Guidance defines recipients and certain related terms as follows:

a. *Recipient*. A recipient is a non-federal entity that receives a federal award directly from a federal awarding agency to carry out an activity under a federal program. [2 CFR section 200.86]

b. *Subrecipient*. A subrecipient is a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program, but does not include an individual that is a beneficiary of such a program. (Guidance on distinguishing between a subrecipient and a contractor is provided in Chapter 8.) [2 CFR section 200.93]

c. *Non-federal Entity*. A non-federal entity is a state, local government, Indian tribe, institution of higher education, or nonprofit organization that carries out a federal award as a recipient. [2 CFR section 200.69]

d. *State*. A state includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and any agency or instrumentality thereof exclusive of local governments. [2 CFR section 200.90]

e. *Indian Tribe*. An Indian tribe includes any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized as eligible for the special programs and services provided by the United States to Indians because of their status as Indians. [2 CFR section 200.54]

f. *Local Government*. A local government includes any unit of government within a state, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other agency or instrumentality of a multi-regional, or intra-state or local government. [2 CFR section 200.64]

g. *Nonprofit Organization*. A nonprofit organization includes any corporation, trust, association, cooperative, or other organization, not including institutions of higher education that— [2 CFR section 200.70]

(1) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

(2) Is not organized primarily for profit; and

(3) Uses net proceeds to maintain, improve, or expand its operations.

h. *Institution of Higher Education*. An institution of higher education as defined in 20 U.S.C. 1001. The definition in 20 U.S.C 1001 encompasses both public and nonprofit institutions. [2 CFR section 200.55]

104.2 Not every recipient of federal awards is required to have a single audit. The Uniform Guidance includes the following rules in making this determination:

a. Nonfederal entities that expend less than \$750,000 of federal awards in a fiscal year are not required to have an audit. [2 CFR section 200.501]

b. Certain nonfederal entities, as described at paragraph 204.10 and paragraph 900.5, may elect to have a program-specific audit. [2 CFR section 200.501]

c. Payments received for goods and services provided as a contractor are excluded because they are not federal awards. [2 CFR section 200.501]

d. Contracts to operate federal government-owned, contractor-operated facilities are excluded from the requirements because they do not meet the definition of federal award. [2 CFR 200.38]

e. Foreign public entities or foreign organizations expending federal awards received directly or indirectly are excluded from the audit requirements of the Uniform Guidance.² [2 CFR section 200.101(c)]

Federal Awards

104.3 2 CFR section 200.38 explains that the definition of *federal award* depends on the context. A federal award is defined as either—

a. The federal financial assistance or the cost-reimbursement contract under the Federal Acquisition Regulations that a nonfederal entity receives directly from a federal awarding agency or indirectly from a pass-through entity; or

b. The grant agreement, cooperative agreement, or other agreement for assistance setting forth the terms and conditions, or the cost-reimbursement contract awarded under the Federal Acquisition Regulations.

104.4 *Federal financial assistance* is defined in 2 CFR section 200.40 as follows:

a. Assistance that nonfederal entities receive or administer in the form of:

(1) Grants;

(2) Cooperative agreements;

(3) Non-cash contributions or donations of property (including donated surplus property);

(4) Direct appropriations;

(5) Food commodities; and

(6) Other financial assistance [except assistance listed in paragraph (b) of this section].

b. For purposes of 2 CFR section 200.202 and 2 CFR part 200, subpart F, federal financial assistance also includes assistance that nonfederal entities receive or administer in the form of:

(1) Loans;

(2) Loan Guarantees;

(3) Interest subsidies; and

(4) Insurance.

Relation to Other Audit Requirements

104.5 To the extent that a single audit meets a federal agency's needs, 2 CFR section 200.503 requires that the agency rely upon and use such audits. However, the Uniform Guidance neither

limits the authority of federal agencies, including their Inspectors General, or GAO to conduct or arrange for additional audits nor authorizes any auditee to constrain federal agencies from carrying out or arranging for such additional audits. Any additional audits must be planned and performed in such a way as to build upon work performed, including the audit documentation, sampling, and testing already performed, by other auditors. A federal agency that conducts or contracts for additional audits must, however, arrange for funding the full cost of such additional audits.

Applicability to For-profit Organizations

104.6 The Uniform Guidance does not require audits of for-profit organizations. However, where a nonfederal entity has passed through funds to a for-profit subrecipient the pass-through entity must establish requirements to ensure compliance by the for-profit entity. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the subrecipient's compliance responsibility. Methods the primary recipient might use to ensure compliance by the subrecipient include preaward audits, monitoring, during the agreement, and postaward audits. Audit requirements can also be included in the contract with the for-profit subrecipient. As discussed at paragraph 900.11, in some cases auditors may perform a program-specific audit of for-profit enterprises under the Uniform Guidance.

104.7 The AICPA Audit Risk Alert, *Government Auditing Standards and Circular A-133 Developments—2011*, cautioned auditors that some federal agencies have new (or updated) compliance audit or attestation requirements relating to for-profit entities. An individual agency may require either a Single Audit or a program-specific audit or an audit that has similar requirements. The requirements may also include a Yellow Book audit of the entity's financial statements. Auditors performing these audits may not be experienced in performing Yellow Book or compliance audits. The risk alert stressed that when the audit is subject to *Government Auditing Standards*, the auditors will be subject to all of the Yellow Book's additional requirements, including the independence and CPE requirements.³

Period Covered by the Single Audit

104.8 The Single Audit Act Amendments and the Uniform Guidance generally require that a single audit will be conducted annually for the operations of the governmental unit or nonprofit organization. The audit period must be the entity's fiscal year, not the fiscal year of the federal award or program; however, the Act does allow biennial audits as follows:

- A state, local government, or Indian tribe that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to have its single audits biennially. This requirement must still be in effect for the biennial period under audit.
- Any nonprofit organization that had biennial audits for *all* biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to have biennial audits.

Any biennial audit must cover both years within the biennial period. The discussion beginning at paragraph 206.2 provides additional information about the period to include in the audit.

² 2 CFR section 200.101(c) allows federal awarding agencies to apply subparts A through E (but not subpart F) of the Uniform Guidance to foreign public entities (i.e., foreign governments) or foreign organizations (e.g., a public or private organization, such as a charitable organization).

³ Although this particular guidance was not repeated in the more-recent audit risk alerts, the authors believe it has continuing relevance.

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END OF DOCUMENT -

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105 Objectives of a Single Audit

Primary Objectives

105.1 The primary objectives of the single audit are to establish uniform audit requirements for entities expending specified amounts of federal awards and to reduce the number of individual program audits, thereby increasing the efficiency and effectiveness of the audits of federal funds. The Single Audit Act Amendments of 1996 standardizes the audit requirements for states, local governments, Indian tribes, and nonprofit organizations. Guidance for implementing the Act is provided in the Uniform Guidance (2 CFR part 200, subpart F), which expands and clarifies the single audit requirements, and in the GAS/SA Audit Guide.

Specific Objectives

105.2 As discussed in section 102, AU-C 935, which is applicable in a Uniform Guidance compliance audit, states that the auditor's objectives are to:

- Obtain sufficient appropriate audit evidence to form an opinion and report at the level specified in the governmental audit requirement on whether the entity complied in all material respects with the applicable compliance requirements, which, in a Uniform Guidance audit of compliance, are the direct and material compliance requirements.
- Identify audit and reporting requirements in the governmental audit requirement that are supplementary to GAAS and *Government Auditing Standards*, if any, and perform procedures to address those requirements.

105.3 While AU-C 935 establishes broad objectives for a compliance audit, the Uniform Guidance and the GAS/SA Audit Guide provide more specific objectives. 2 CFR section 200.515 requires the auditor to express an opinion (or disclaim an opinion) on:

- Whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles and whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

- Whether the auditee complied with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program.

105.4 In addition, reports that do not include an opinion are required on:

- Internal control over financial reporting and over federal award programs.

- Compliance with laws, regulations, and the provisions of contracts and award agreements, noncompliance with which could have a material effect on the financial statements.

105.5 Paragraph 15.04 of the GAS/SA Audit Guide explains that in a single audit, the auditor has the following specific objectives, each of which results in the auditor issuing a report:

- To determine whether the financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles.

- To determine whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

- To obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs; plan the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and perform testing of internal control as planned.

- To determine whether the auditee complied with the federal statutes, regulations, and the terms and conditions of the federal awards that might have a direct and material effect on each major program.

Federal Awarding Agency Variations

105.6 The most common variations encountered in federal awarding agency requirements relate to the specific federal agency pronouncements cited. The requirements may call for an audit in accordance with the Yellow Book, the Uniform Guidance, or the Single Audit Act, or all or some other combination of these pronouncements. In some cases, the audit requirement may be awkwardly worded, such as the following:

The auditor should express an opinion as to whether the financial statements audited are fairly stated in accordance with generally accepted accounting principles, and the provisions of GAO's *Government Auditing Standards*.

105.7 Since the Yellow Book contains no guidance on the presentation of financial statements, this requirement cannot be interpreted literally. The requirement means that an audit of the financial statements must be in accordance with the Yellow Book, including the additional GAO general, fieldwork, and reporting standards. Unless the federal awarding agency's audit requirements specify different required reports, an audit in accordance with the Yellow Book means that both the scope of the audit and the reports issued should conform to the Yellow Book's requirements.

105.8 Other federal awarding agency variations may result from exceptions to regulations in the Uniform Guidance. Paragraph 16.78 of the GAS/SA Audit Guide explains that some federal agencies received OMB approval to make exceptions to regulations in the Uniform Guidance. It could be difficult to determine such exceptions and their effect on the audit. Appendix VII of the 2015 Compliance Supplement summarizes, by federal agency, the Uniform Guidance sections that have exceptions. Appendix II identifies agencies that did not request any exceptions. The complete listing and text of the exceptions is available at <https://cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. Because these listings may not be the most current or complete, auditors should also refer to applicable agency regulations. Auditors may also find it helpful or necessary to consult with the federal awarding agency using the contact information in Appendix III of the Compliance Supplement.

Other Audit Requirements

105.9 Even if the client does not need a single audit, it may have federal, state, or local grants that call for a financial audit performed in accordance with the Yellow Book or that require additional compliance testing and reporting under specific grant agreements. Also, states or other granting agencies may have audit requirements in addition to the requirements of the Uniform Guidance. For example, many states have adopted state single audit requirements.

END OF DOCUMENT -

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Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

106 Components of a Single Audit

106 Components of a Single Audit

106.1 Single audits are generally organized into a financial audit of the entity's financial statements and a compliance audit of the federal award programs, which includes gaining an understanding of and testing the internal controls over federal programs as well as testing applicable compliance requirements. The GAS/SA Audit Guide notes that in a Uniform Guidance audit of compliance, the applicable compliance requirements are the direct and material compliance requirements for each major program. Each audit results in a number of reports on the financial statements, compliance, and internal control. Chapter 11 discusses the various reports that are issued in a single audit.

Financial Statement Audit

106.2 The audit of the financial statements is performed in accordance with generally accepted auditing standards (GAAS) and the financial audit standards contained in *Government Auditing Standards* (the Yellow Book). The Yellow Book incorporates the AICPA fieldwork and reporting standards. See Chapter 3 for a detailed discussion of the audit of financial statements in a single audit and Chapter 11 for a discussion of the reporting standards. Detailed guidance on conducting the financial statement audit part of a single audit can be found in the following PPC guides:

- *PPC's Guide to Audits of Local Governments.*

- *PPC's Guide to Audits of Nonprofit Organizations.*

106.3 The following AICPA audit and accounting guides also provide detailed guidance on auditing the financial statements of state and local governments and nonprofit organizations:

- *State and Local Governments (SLG).*

- *Not-for-Profit Entities.*

Federal Award Audits

106.4 As part of a single audit, the auditor is required to assume certain testing and reporting responsibilities beyond those of the audit of the financial statements in accordance with GAAS and *Government Auditing Standards*. The additional responsibilities focus on compliance with laws and regulations applicable to federal awards and on the internal controls over compliance used in administering federal awards. Exhibit 11-1 presents an overview of the various reports required by GAAS, *Government Auditing Standards*, and the single audit.

106.5 In addition to this *Guide*, the AICPA Audit Guide, *Government Auditing Standards and Single Audits*, and the AICPA audit risk alerts for single audits (see paragraph 109.30) provide guidance and other information about audits of federal award programs.

END OF DOCUMENT -

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107 Significant Single Audit Procedures

Two Key Steps

107.1 There are two key steps that have a significant impact on the scope of the auditor's work and the number and types of reports issued in an audit of federal awards. Those steps are as follows:

- Determine “major” programs.
- Identify direct and material compliance requirements.

107.2 **Major Programs** Identification of major programs is crucial to establishing the scope of audit procedures in a single audit. This is because the Single Audit Act Amendments and the Uniform Guidance focus on *major* federal award programs in determining the extent of tests of controls and in determining whether additional tests of compliance with federal statutes, regulations, and the terms and conditions of federal awards are required. The Uniform Guidance prescribes a risk-based approach to determining which federal programs are major programs. Adoption of a risk-based approach shifts the audit away from traditional major programs (i.e., those with large dollar expenditures) to an emphasis on programs that show signs of managerial weakness or that by their nature are inherently risky. The criteria to determine risk include the entity's current and prior audit experience with federal programs, the results of oversight reviews or visits by federal agencies and pass-through entities, and the inherent risk of the program. Determining which programs should be audited as major programs is discussed in more detail at section 404. The auditor's responsibility for testing compliance with federal statutes, regulations, and the terms and conditions of federal awards and internal control over federal programs is limited to major programs.

107.3 **Compliance Requirements** The term *compliance requirement* generally refers to laws, regulations, and the provisions of contracts or grant agreements that should be considered in an audit of major federal award programs. 2 CFR section 200.515(c) requires that the auditor's report:

. . . include . . . an opinion or disclaimer of opinion as to whether the auditee complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program. . . .

107.4 *Noncompliance* refers to noncompliance with the provisions of federal statutes, regulations, and the terms and conditions of federal awards relating to major programs. The auditor's determination of whether a noncompliance is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement, or an audit objective identified in the Compliance Supplement for a major program. The GAS/SA Audit Guide, Paragraph 20.49, clarifies that the auditor should conclude whether sufficient appropriate audit evidence was obtained to reduce to an appropriately low level the risks of material noncompliance with the compliance requirements. Thus, the auditor should perform enough testing of each major program to provide a sufficient basis for expressing an opinion on compliance related to each major program.

107.5 The compliance requirements and suggested audit procedures for many of the largest federal programs are included in the Compliance Supplement issued by the OMB and available on OMB's website at www.whitehouse.gov/omb/grants_circulars/. A link to the Compliance Supplement is included in *PPC's Government Documents Library* at Gov. Doc. No. 9. For programs not included in the Compliance Supplement the auditor may research the statutes, regulations, or federal awards governing the particular program or programs, or other sources. Part 7 of the Compliance Supplement provides additional guidance. GSA-AP-4 provides an audit program to aid the auditor in determining the compliance requirements in these instances.

END OF DOCUMENT -

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Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

108 Other Auditor Responsibilities and Requirements

108 Other Auditor Responsibilities and Requirements

Categories of Professional Requirements

108.1 **GAAS and Government Auditing Standards** Both GAAS and *Government Auditing Standards* establish two specific categories of professional requirements to describe the degree of responsibility imposed on auditors:

- *Unconditional Requirements*. These requirements are identified by the words “must” or “is required.” Auditors must follow unconditional requirements in all cases if the circumstances apply to the requirement.
- *Presumptively Mandatory Requirements*. These requirements are identified by the word “should.” Auditors must also comply with presumptively mandatory requirements if the circumstances apply to the requirement. However, in rare situations, a departure from the requirement is allowed if the auditor documents the justification and how alternative procedures that were performed were sufficient to achieve the intent of the requirement.

108.2 The GAS/SA Audit Guide, Paragraph 1.18, explains that the Yellow Book also contains related guidance in the form of application and other explanatory material that further explains the requirements and provides guidance for applying them. For example, it might explain more precisely what a requirement means or addresses, or might provide examples of appropriate audit procedures. Although this guidance does not impose requirements on the auditor, it is relevant to properly applying the requirements. Auditors should have an understanding of the application and other explanatory material. The words *may*, *might*, and *could* are used to describe these actions and procedures.

108.3 Detailed guidance on GAAS and other AICPA requirements, such as ethical requirements, is provided in *PPC's Guide to Audits of Local Governments* and *PPC's Guide to Audits of Nonprofit*

Organizations. The discussion in this section highlights some of the requirements of *Government Auditing Standards*.

108.4 Uniform Guidance The Uniform Guidance also uses the terms *must* and *should*. Consistent with the use of the term *must* in GAAS and *Government Auditing Standards*, use of *must* in the Uniform Guidance indicates a requirement. However, the word *should* is used throughout 2 CFR part 200 to indicate a best practice or recommended approach, not a presumptively mandatory requirement.

Ethical Principles

108.5 The Yellow Book, in Chapter 1, discusses the fundamental ethical principles that are the foundation for all work performed under *Government Auditing Standards*. Chapter 3 builds on the principles and establishes requirements related to independence, professional judgment, competence, quality control and assurance, and peer reviews. (See the discussions beginning at paragraphs 108.9 and 109.13.)

108.6 The Yellow Book emphasizes that the public expects auditors to follow ethical principles when performing work under *Government Auditing Standards*. According to Paragraph 1.12 of the Yellow Book:

Ethical principles apply in preserving auditor independence, taking on only work that the audit organization is competent to perform, performing high-quality work, and following the applicable standards cited in the auditors' report.

108.7 Although the Yellow Book's ethical principles are fundamental to all work performed under *Government Auditing Standards*, they are not written as specific requirements. Instead, they provide a framework that enables auditors to consider the facts and circumstances of each situation. The Yellow Book, at Paragraph 1.10, states that the ethical principles provide the foundation, discipline, structure, and climate which influence auditors' application of *Government Auditing Standards*. The Yellow Book reminds auditors that they may also be subject to other ethical requirements of professional organizations or licensing bodies or, for auditors in government entities, government ethics laws and regulations.

108.8 The Yellow Book emphasizes that performing audit work in accordance with ethical principles is both an individual and an organizational responsibility. Paragraph 1.14 of the Yellow Book provides the following ethical principles that guide the work of auditors and audit organizations conducting audits in accordance with *Government Auditing Standards*:

- The public interest

- Integrity

- Objectivity
- Proper use of government information, resources, and positions
- Professional behavior

Paragraph 202.99 describes each of the ethical principles.

Independence

108.9 *Government Auditing Standards* states that in all matters relating to the audit work, the audit organization and individual auditor, whether government or public, must be independent. If independence is impaired, the auditor should decline to perform a prospective audit or should terminate one that is in progress. The Yellow Book establishes a conceptual framework that should be used to identify, evaluate, and apply safeguards to address threats to independence. The Yellow Book also identifies specific nonaudit services that always impair independence and that auditors are prohibited from providing to audited entities. If a nonaudit service is not specifically prohibited, the auditor is required to assess its impact on independence using the conceptual framework. The Yellow Book independence requirements are discussed beginning at paragraph 202.51.

Professional Judgment

108.10 The Yellow Book stresses the critical role of professional judgment in complying with *Government Auditing Standards*. Paragraph 3.60 of the Yellow Book establishes an unconditional (i.e., “must”) requirement for auditors to use professional judgment in planning, performing, and reporting on audits. Paragraph 3.61 of the Yellow Book states that professional judgment “includes exercising reasonable care and professional skepticism.”

108.11 The concept of reasonable care requires auditors to act diligently in accordance with applicable professional standards and ethical principles. Exercising professional skepticism requires auditors to critically assess audit evidence while assuming that management is neither dishonest nor of unquestioned honesty.

108.12 The Yellow Book clearly states that professional judgment is both an organizational and individual responsibility. Paragraph 3.63 of the Yellow Book states:

Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved with an audit, as well as the professional judgment of individual auditors. In addition to personnel directly involved in the audit, professional judgment may involve collaboration with other stakeholders, external

specialists, and management in the audit organization.

108.13 Paragraph 3.64 of the Yellow Book indicates that applying professional judgment includes:

- Following the independence standards and related conceptual framework,
- Maintaining objectivity and credibility,
- Assigning competent staff to the audit engagement,
- Defining the scope of work,
- Evaluating, documenting, and reporting the results of the work, and
- Maintaining appropriate quality control over the audit.

108.14 The GAS/SA Audit Guide, Paragraph 2.33, provides the following additional considerations relative to exercising professional judgment:

- The use of professional knowledge, skills, and experience to diligently gather information, in good faith and with integrity, and to objectively evaluate the sufficiency and appropriateness of evidence is a critical component of an audit. Professional judgment and competence are interrelated because judgments made are dependent upon the auditor's competence.
- Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved with an audit, as well as the professional judgment of individual auditors. Professional judgment may also involve collaboration with other stakeholders, external specialists, and management in the audit organization.
- The use of professional judgment is important in performing all aspects of auditors' professional responsibilities, including following the independence standards and related conceptual framework; maintaining objectivity and credibility; assigning competent staff to the audit; defining the scope of work; evaluating, documenting, and reporting the results of the work; and

maintaining appropriate quality control over the audit process.

- The use of professional judgment is important when applying the conceptual framework to determine independence for a specific situation. This includes the consideration of threats to independence and safeguards that may mitigate identified threats. Professional judgment is used to identify and evaluate any threats to independence, including those to the appearance of independence.
- The use of professional judgment is important in determining the required level of understanding of the audit subject matter and related circumstances. This includes consideration of whether the audit team's collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter of the audit may contain a significant inaccuracy or could be misinterpreted.
- The consideration of the audit risk level, including the risk of arriving at improper conclusions, is also important. Exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings, conclusions, and any recommendations is an integral part of the audit process.

108.15 *Government Auditing Standards* places responsibility on each auditor and the audit organization to exercise professional judgment in planning and performing an audit. However, it does not imply unlimited responsibility or infallibility on the part of an auditor or the audit organization.

108.16 **Documentation** The authors believe that significant decisions resulting from professional judgment should be documented to meet the requirement at Paragraph 3.91 of the Yellow Book for the audit organization to establish policies and procedures for audit engagement performance, documentation, and reporting that are designed to provide reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements.

108.17 The authors also believe that the requirement to document significant decisions arising from professional judgment would be encompassed by the GAAS requirement at AU-C 230.02 for audit documentation to provide evidence that the audit was planned and performed in accordance with GAAS and applicable legal and regulatory requirements. AU-C 230.A11 further explains—

An important factor in determining the form, content, and extent of audit documentation of significant findings or issues is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, when significant, serves to explain the auditor's conclusions and to

reinforce the quality of the judgment.

Competence and Continuing Education

108.18 The general standard related to competence in the Yellow Book requires that the staff assigned to perform the audit engagement must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with *Government Auditing Standards*. The audit organization's management should assess skill needs to consider whether its staff has the skills that match those necessary to perform the particular audit. The Yellow Book, at Paragraph 3.70, further states that an audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. Competence is considered to include education, experience, and a commitment to life-long learning.

108.19 The staff also should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit. Paragraph 3.72 of *Government Auditing Standards* lists the technical knowledge, skills, and experience that staff should collectively possess:

- Knowledge of *Government Auditing Standards* applicable to the type of work they are assigned and the education, skills, and experience to apply the knowledge to the work being performed.

- General knowledge of the environment in which the audited entity operates and the subject matter.

- Skills to enable clear and effective oral and written communication.

- Skills appropriate for the work being performed; for example, skills in—
 - statistical or nonstatistical sampling if the work involves use of sampling;

 - information technology if the work involves review of information systems;

 - engineering if the work involves review of complex engineering data;

- specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, as applicable; or
- specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject matter if the work calls for such expertise.

In addition, auditors performing financial audits should be knowledgeable in GAAS and GAAP or the special purpose framework being used.

108.20 The Yellow Book, at Paragraph 3.75, also establishes a presumptively mandatory requirement that auditors be licensed certified public accountants, work for a licensed certified public accounting firm or a government auditing organization, or be licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than certified public accountants.

108.21 The Yellow Book continuing education requirements are included as part of the competence general standard. The Yellow Book CPE requirements are summarized in the following paragraphs.

108.22 **80-hour and 24-hour Requirements** According to Paragraph 3.76 of the Yellow Book, every two years, each auditor performing work in accordance with the Yellow Book, including planning, directing, performing audit procedures, or reporting on an audit under the Yellow Book, should complete at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the auditee operates. In addition, auditors who do any amount of planning, directing, or reporting on Yellow Book audits and auditors who are not involved in those activities but charge at least 20% of their time annually to Yellow Book audits should also obtain at least another 56 hours (for a total of 80 hours in every two-year period) of CPE that enhances their professional proficiency to perform audits. In other words, everyone working on a Yellow Book engagement should meet the 24-hour requirement. However, auditors who do not do any planning, directing, or reporting on a Yellow Book engagement, or who do not spend at least 20% of their time annually on Yellow Book engagements are not required to obtain an additional 56 hours of CPE to comply with the 80-hour requirement. (It is important to note that the Yellow Book's CPE requirements apply whether the auditor is a CPA or is not certified.) Auditors who are required to comply with the 80-hour requirement should complete at least 20 hours in each year of the two-year period. Auditors hired or initially assigned to Yellow Book audits after the beginning of an audit organization's two-year CPE period should complete a prorated number of CPE hours.

108.23 The Yellow Book indicates that internal specialists (i.e., employees of the audit firm) who are performing work as part of the audit team should comply with the Yellow Book's CPE requirements. However, Paragraph 3.80 of the Yellow Book specifically exempts internal specialists who are

consulting on a Yellow Book audit and are not involved in directing, performing audit procedures, or reporting on it from the Yellow Book CPE requirements.

108.24 Paragraph 3.81 of the Yellow Book clarifies that the Yellow Book's CPE requirements become effective for internal specialists when they are first assigned to an audit. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization would meet the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

108.25 External specialists do not have to meet Yellow Book CPE requirements. However, Paragraph 3.79 of the Yellow Book establishes a requirement that the auditor should determine that external specialists are qualified and competent in their areas of specialization. Paragraph 3.80 of the Yellow Book establishes a similar requirement regarding internal specialists who are consulting on an audit.

108.26 The Yellow Book, at Paragraph 3.77, states that determining what CPE subjects are appropriate to satisfy CPE requirements is a matter of professional judgment to be exercised by auditors in consultation with appropriate officials in their audit organization. In deciding appropriate CPE courses, auditors consider their experience, the responsibilities they have in a Yellow Book audit, and the operating environment of the audited entity.

108.27 The Yellow Book further states, at Paragraph 3.78, that individual auditors are primarily responsible for improving their own competencies and meeting CPE requirements. However, audit firms should establish quality control procedures to help ensure that auditors meet CPE requirements, including documentation of CPE completed.

108.28 **2005 CPE Guidance** In April 2005, the GAO issued comprehensive guidance on CPE for auditors who perform Yellow Book engagements. *Guidance on GAGAS Requirements for Continuing Professional Education* (2005 Guidance) clarifies numerous CPE issues including measurement periods, 24-hour and 80-hour requirements, and CPE topics that meet the Yellow Book requirements. The concepts, but not the detailed guidance, of the 2005 Guidance have been incorporated into the Yellow Book. However, the 2005 Guidance is still applicable under the 2011 Yellow Book. Auditors may want to refer to it for identification of acceptable CPE topics. It is available on the GAO's website at www.gao.gov.

108.29 Firms have flexibility in choosing the CPE measurement period. The measurement period does not have to coincide with the date a firm started its first Yellow Book engagement. Firms may want to use a measurement period that coincides with the firm's fiscal year or one that coincides with a licensing board's reporting requirement. Yellow Book CPE requirements must be met every two years. An audit organization may choose to establish a standard two-year measurement period for all of its auditors, which can be on either a fixed-year or rolling-year basis. (A fixed-year basis would be, for example 2013-2014 or 2015-2016. A rolling-year basis would be something like 2013-2014, 2014-2015, or 2015-2016.) The authors recommend that firms not use a rolling-year basis.

108.30 Paragraphs 18 and 19 of the 2005 Guidance discuss the subjects and topics that would

satisfy the 24-hour requirement and the remainder of the 80-hour requirement, respectively.

108.31 Other Yellow Book Competence and CPE Requirements Audit organizations that have not previously been subject to the Yellow Book may perform Yellow Book audits. However, the organization must meet the competence standards discussed beginning at Paragraph 3.69 of the Yellow Book. For example, the staff assigned to perform Yellow Book audits must *collectively* possess the technical knowledge, skills, and experience necessary for that assignment before beginning work on that assignment. The 2005 Guidance indicates that audit firms, at their discretion, may give individual auditors an extension of time (not to exceed two months) to obtain CPE if they have not completed the required number of hours in the two-year period. Firms may also, at their discretion, grant exceptions from a portion of CPE requirements in extenuating circumstances (e.g., ill health, military service, disasters). Also, auditors who are hired or assigned to a Yellow Book audit after the beginning of the firm's measurement period should complete a prorated number of hours.

Yellow Book Quality Control and Assurance Requirements

108.32 Audit organizations conducting Yellow Book audits must establish and maintain a quality control system that is designed to provide reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. The organization also has to undergo an external peer review at least once every three years by reviewers independent of the audit organization being reviewed. The external peer review requirement has to be met (i.e., peer review report issued) within three years after starting a firm's first Yellow Book audit (i.e., the start of field work).⁴

108.33 The Yellow Book, beginning at Paragraph 3.85, lists policies and procedures that should be addressed in the firm's quality control system. The firm's quality control procedures have to be documented and communicated to firm personnel. Firms should also document compliance with the policies and procedures and maintain the documentation for a sufficient period of time to enable peer reviewers and individuals performing monitoring procedures to evaluate the extent of the firm's compliance with its quality control policies and procedures. The results of monitoring procedures should be analyzed and summarized at least annually, including identification of any systemic improvements and recommendations for corrective action.

108.34 According to Paragraph 3.106 of the Yellow Book, auditors seeking to enter into a contract to perform an audit in accordance with *Government Auditing Standards* should, if requested, provide the party contracting for the audit with the auditor's most recent peer review report and any subsequent peer review reports received during the period of the contract.

108.35 The GAS/SA Audit Guide, Paragraph 2.50, indicates that auditors who are using another audit organization's work should request a copy of that organization's most recent peer review report and any other written communication issued. That other audit organization should provide the documents upon request. The practical considerations to the engagement letters at GSA-CL-1.1, GSA-CL-1.2, and GSA-CL-1.3 include language that can be added if a copy of the peer review report will accompany the engagement letter. Alternatively, the auditor can use the separate transmittal

letter at GSA-CL-4.3.

108.36 Requirement to Make Peer Review Report Publicly Available The Yellow Book, at Paragraph 3.105, states that external audit firms should make their most recent peer review report publicly available. This can be done, for example, by posting the peer review report on a publicly available internet site or to a publicly available site designed for transparency of peer review results. The GAS/SA Audit Guide, Paragraph 2.48, explains that if these options are not available, the audit firm should use the same transparency mechanism it uses to make other information public. The audit organization also should provide the peer review report to others when requested. Any separate communication of findings, conclusions, and recommendations that may have been issued does not have to be made publicly available. *Government Auditing Standards*, Appendix I section A3.12, provides additional information on transparency of peer review reports, including information that might be included with a publicly available report to help users understand its meaning.

108.37 AICPA Governmental Audit Quality Center Requirements The AICPA's Governmental Audit Quality Center (GAQC) provides numerous resources for improving audit quality. Membership in the GAQC is voluntary, but the following membership requirements apply:

- The firm must designate an audit partner to have firm-wide responsibility for the quality of the firm's governmental audit practice. That partner must meet the Yellow Book's CPE requirements, even if he or she would not otherwise be subject to such requirements. That partner must also participate in an annual GAQC-sponsored webcast on recent developments in governmental auditing.
- At admission, all U.S. audit partners who are eligible for AICPA membership must be AICPA members.
- At admission, information about the firm's most recently accepted peer review has to be made publicly available.
- Within three months of admission, the firm has to establish annual internal inspection procedures that include a review of its governmental audit practice and compliance with GAQC membership requirements. This inspection is in addition to the monitoring requirement in the quality control standards. Results of the annual internal inspections are to be made available to the firm's peer reviewer.
- Within six months of admission, the firm has to establish, document, and communicate quality control policies and procedures specific to its governmental audit practice that comply with

applicable professional standards and GAQC membership requirements.

- The review of governmental audits selected for peer review has to be performed by a peer review team member who is employed by a GAQC member firm.
- The firm has to periodically file with the GAQC information about the firm and its governmental audit practice and allow such information to be available for public inspection.
- The firm has to pay dues and comply with additional requirements as may be established by the GAQC's Executive Committee and approved by the AICPA's Board of Directors.

Audit Documentation

108.38 Auditors should prepare audit documentation with an appropriate amount of detail that provides a clear understanding of the work performed, the evidence obtained, and the conclusions reached. The GAS/SA Audit Guide, Paragraph 19.60, clarifies that in a single audit, audit documentation should be sufficient to enable an experienced auditor who has no previous connection to the audit to understand—

- The nature, timing, and extent of audit procedures performed to comply with GAAS, *Government Auditing Standards*, and other applicable standards and requirements, such as the Uniform Guidance.
- The results of the audit procedures performed and the audit evidence obtained.
- Significant findings or issues that arose during the audit.
- The conclusions reached and significant professional judgments made in reaching them.

108.39 The use of the term *experienced auditor with no previous connection to the audit* reinforces a documentation concept that workpapers need to “stand by themselves.” In other words, the documentation needs little or no oral explanation as to what was done, who performed the work, and the reasons for the conclusions that were reached. AU-C 230.06 considers an *experienced auditor*

to be an individual with practical audit experience and the necessary competency and skill to perform the audit. Such skills and competencies would include an adequate knowledge of (a) professional standards and applicable legal or regulatory requirements, (b) the audit process, (c) the business environment in which the entity operates, and (d) auditing and financial reporting issues relevant to the entity's industry. AU-C 230.A1 clarifies that an auditor who has practical audit experience has the competencies and skills that would have enabled the auditor to perform the audit. It does not mean that the auditor has performed comparable audits.

108.40 The GAS/SA Audit Guide, Paragraph 3.21, further explains that audit documentation for financial audits performed under the Yellow Book should contain the following additional items not explicitly addressed in the AICPA standards:

- If the auditor does not comply with *Government Auditing Standards* due to law, regulation, scope limitations, restrictions on access to records, etc., documentation of the departure, reasons for not complying, and the impact on the audit, and the auditor's conclusions. (This is applicable to both unconditional requirements and presumptively mandatory requirements when alternative procedures were not sufficient to achieve the objectives of the requirement.)
- Documentation of supervisory review, before the report release date, of the evidence that supports the findings, conclusions, and recommendations contained in the auditor's report.

Other Yellow Book documentation requirements are discussed where relevant throughout this *Guide*.

108.41 Because of the requirement for audit documentation to enable experienced auditors with no previous connection to the audit to understand the procedures performed, the results of the procedures, and the auditor's conclusions, the documentation should address all important aspects of the engagement and be sufficiently detailed to permit reasonable identification of the work done and conclusions reached. This means that the auditor, in addition to satisfying the requirements specifically enumerated in paragraphs 108.38 and 108.40, needs to make sure the audit documentation sufficiently:

- Documents the understanding of internal control, including specific control procedures relevant to the administration of federal awards.
- Identifies sufficient information about the nature, source, and amounts of the accounting entries or financial items examined and any related audit evidence examined.
- Describes the nature of testing procedures performed and provides detailed information about exceptions found and their disposition.

108.42 **AU-C 935 Documentation Requirements** As discussed in section 102, the requirements of AU-C 935, *Compliance Audits*, are applicable in a single audit. AU-C 935 establishes documentation requirements relating to materiality, procedures performed, responses to assessed risks of noncompliance, and the auditor's compliance with specific governmental audit requirements in addition to the requirements of GAAS and *Government Auditing Standards*. See paragraph 102.34.

⁴ The Yellow Book clarifies the external peer review timeframes and that extensions of these timeframes beyond three months are granted by the entity that administers the peer review program and the GAO.

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Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

109 Single Audit Standards and Authoritative Literature

109 Single Audit Standards and Authoritative Literature

109.1 The authoritative literature that is relevant to single audits includes both governmental and AICPA pronouncements. The governmental pronouncements include those that apply specifically to governmental organizations, those that apply specifically to nonprofit organizations, and those that apply to both. All of the authoritative pronouncements listed in this section are described further in Appendix A-2, and the most important ones are reproduced (or have a link provided) in *PPC's Government Documents Library* (see paragraph 109.37). The discussion beginning at paragraph 109.40 also explains how to obtain these and other government documents.

Governmental Pronouncements

109.2 **General** The following governmental pronouncements apply to both governmental entities and nonprofit organizations and provide guidance on single audits:

- Single Audit Act Amendments of 1996—"The Act" (included in *PPC's Government Documents Library* at Gov. Doc. No. 1).
- Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). [The most current version of 2 CFR part 200 is in the Electronic Code of Federal Regulations (eCFR) at www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.]
- The December 2014 Joint Interim Final Rule Implementing the Uniform Guidance, *Federal Awarding Agency Regulatory Implementation of Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

- Other agency implementing regulations relating to the Uniform Guidance. (Each federal agency has issued implementing regulations that address the new requirements in the Uniform Guidance.)
- *OMB Compliance Supplement* (Compliance Supplement) (Links to the most recent Compliance Supplements are included in *PPC's Government Documents Library* at Gov. Doc. No. 9).
- *GAO Government Auditing Standards, 2011 Revision* (the Yellow Book) (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 2).
- *GAO Guidance on GAGAS Requirements for Continuing Professional Education*, April 2005 (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 2).⁵
- *Catalog of Federal Domestic Assistance (CFDA)*.

109.3 **Governmental Entities** The following governmental pronouncements, which have now been superseded, may still apply to some federal awards for governmental entities:

- OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, May 10, 2004 (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 4).
- OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, October 14, 1994, as amended August 29, 1997 (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 5).
- OMB *Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (OMB Common Rule), March 11, 1988, as amended April 19, 1995 (included in *PPC's Government Documents Library* at Gov. Doc. No. 10). (Each agency has published a “Federal Agency Implementation of the Common Rule” that indicates any statutorily required differences from the OMB Common Rule.)

The above pronouncements were superseded by the Uniform Guidance for all new federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date. See section 111.

109.4 Nonprofit Organizations The following government pronouncements, which have now been superseded, may still apply to some federal awards for nonprofit organizations:

- OMB Circular A-21, *Cost Principles for Educational Institutions*, May 10, 2004 (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 3).⁶
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, revised November 19, 1993, as amended August 29, 1997, August 10, 1998, and September 30, 1999 (included in *PPC's Government Documents Library* at Gov. Doc. No. 6). (Each federal agency has issued its own Circular A-110 that reflects any statutorily required or other agency differences from the OMB Circular.)⁶
- OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, May 10, 2004 (a link is included in *PPC's Government Documents Library* at Gov. Doc. No. 7).

The above pronouncements were superseded by the Uniform Guidance for all new federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date. See section 111.

109.5 These pronouncements are relevant whenever a nonprofit organization receives financial awards from the federal government—directly or indirectly—or when a state or local government funding source incorporates these pronouncements in its own requirements by reference.

109.6 CFR Title 2 In an effort to simplify grants management, OMB has established Title 2 of the Code of Federal Regulations (CFR) as a single location for guidance on grants and agreements. Subtitle A of Title 2, *Government-wide Grants and Agreements*, contains OMB policy guidance to federal agencies on grants and agreements. Subtitle B, *Federal Agency Regulations for Grants and Agreements*, contains the federal agencies' regulatory implementation of OMB policy guidance. OMB moved the following Circulars into Title 2 CFR, Subtitle A, Chapter 2:

- Circular A-21, *Cost Principles for Educational Institutions* (2 CFR part 220).
- Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR part 225).

- Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations* (2 CFR part 215).
- Circular A-122, *Cost Principles for Non-Profit Organizations* (2 CFR part 230).

Although the circulars have been reissued in Title 2 of the CFR, the Compliance Supplement and this *Guide* continue to refer to them by circular name and number. Appendix A-2 of this *Guide* provides web addresses for each of the above circulars. Links to the circulars continue to be available through PPC's *Government Documents Library* as indicated in paragraphs 109.3 and 109.4.

109.7 In 2009, Title 2 of the CFR was expanded to include guidance on Recovery Act awards. New part 176 [2 CFR part 176(b)] establishes requirements for award recipients to separately identify expenditures for Recovery Act awards on the schedule of expenditures of federal awards and the data collection form. Part 176 also establishes specific communication and documentation requirements for recipients that pass through Recovery Act awards to subrecipients.

109.8 Title 2 of the CFR was also revised to establish reporting requirements necessary for the implementation of the Federal Funding Accountability and Transparency Act. 2 CFR part 170, Appendix A, states:

Unless you are exempt . . . you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds . . . for a subaward to an entity . . .

Appendix A also provides guidance on reporting compensation of the five most highly compensated executives for recipients and first-tier subrecipients in certain situations.

109.9 OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) has also been placed in CFR Title 2. The Uniform Guidance is located in 2 CFR part 200. Its audit requirements are located in 2 CFR sections 200.500-.521. The most current version of 2 CFR part 200 is in the Electronic Code of Federal Regulations (eCFR) at www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

109.10 **OMB Compliance Supplement** As discussed in more detail beginning at paragraph 708.2, the 2015 Compliance Supplement, which supersedes the 2014 Compliance Supplement, is effective for audits of fiscal years beginning after June 30, 2014. By necessity, it covers both OMB Circular A-133 and the Uniform Guidance. It also provides guidance on awards that are subject to the administrative requirements and cost principles in the Uniform Guidance and those that are subject to the previous administrative requirements and cost principles. Part 3 of the Compliance

Supplement is divided into two separate sections that apply depending on which requirements are applicable to the award. Part 3.1 of the 2015 Compliance Supplement applies to awards made before December 26, 2014, and funding increments that did not have modified terms and conditions. Part 3.2 of the 2015 Compliance Supplement applies to new awards made on or after December 26, 2014, and to funding increments with modified terms and conditions awarded on or after that date. More information about the use of the Compliance Supplement and the changes in the 2015 edition, including the deletion of two of the types of compliance requirements (Davis-Bacon Act and Real Property Acquisition and Relocation Assistance), is provided beginning at paragraph 708.2.

109.11 A link to the most recent Compliance Supplement is included in *PPC's Government Documents Library* at Gov. Doc. No. 9. Copies of the Compliance Supplement may also be obtained from the OMB website at www.whitehouse.gov/omb/circulars_default (available in Microsoft Word and PDF formats).

109.12 **Data Collection Form** As discussed in section 1008, the 2013 data collection form must be used for audits of fiscal periods ending in 2013, 2014, or 2015. The data collection form can only be completed online and submitted electronically. In addition, the Federal Audit Clearinghouse will accept only electronic submissions of the reporting package. Detailed instructions for completing the 2013 data collection form and submitting the reporting package are available on the Federal Audit Clearinghouse website at <https://harvester.census.gov/facweb/Default.aspx>. Detailed information about the data collection form, including expected revisions, is provided in section 1008 of this *Guide*.

109.13 **Government Auditing Standards, 2011 Revision** When performing Yellow Book audits, the auditor has certain responsibilities beyond those of audits performed in accordance with GAAS. For example, in addition to an auditor's report that expresses an opinion or disclaimer of opinion on the financial statements as required by GAAS, the Yellow Book requires a written report on internal control over financial reporting and on compliance and other matters. The Yellow Book standards and guidance applicable to financial audits are contained in Chapters 1-4 of *Government Auditing Standards* and include ethical principles, general standards, and additional standards for performing and reporting on financial audits.

109.14 Chapter 1—Government Auditing: Foundation and Ethical Principles. Chapter 1 includes the introduction and the foundation and overarching ethical principles of government auditing. The ethical principles do not establish specific standards or requirements; however, they provide the foundation, discipline, and structure that affect the application of *Government Auditing Standards*. The ethical principles relate to preserving auditor independence, taking on only work that the audit organization is competent to perform, performing high-quality work, and following the standards cited in the auditor's report.

109.15 Chapter 2—Standards for the Use and Application of GAGAS. Chapter 2 provides an overall discussion on the use and application of *Government Auditing Standards*. Among other things, it emphasizes the role of professional judgment in determining the appropriate type of statement to be used for stating compliance with *Government Auditing Standards* in the auditors'

report. It also defines two categories of professional requirements to describe auditors' responsibilities. (See paragraph 108.1.) Chapter 2 also explains that interpretative publications issued by the GAO to provide guidance on the application of *Government Auditing Standards* in specific circumstances, while not auditing standards, have the same level of authority as application and other explanatory material in the Yellow Book.

109.16 Chapter 3—General Standards. Chapter 3 contains the Yellow Book's general standards, which along with the overarching ethical principles in Chapter 1, establish a foundation for the credibility of auditors' work. The general standards relate to independence, professional judgment, competence, and quality control and assurance.

109.17 Chapter 3 also establishes a conceptual framework approach for independence to provide a way for auditors to assess their independence in unique circumstances that may exist and are not expressly prohibited by the Yellow Book. Under the conceptual framework, the auditor identifies and evaluates threats to independence and determines if safeguards can be put in place to mitigate significant threats. (Safeguards are controls that eliminate threats or reduce them to an acceptable level.) The conceptual framework is applied at the audit organization, engagement, and individual auditor levels. However, certain specific nonaudit services are prohibited. (See section 202.)

109.18 Chapter 4—Standards for Financial Audits. Chapter 4 contains requirements and considerations for both performing and reporting on financial audits conducted in accordance with *Government Auditing Standards*. It incorporates, by reference, the AICPA's performance and reporting standards and the corresponding Statements on Auditing Standards. All sections of the SASs are incorporated, including the introduction, objectives, definitions, requirements, and application and other explanatory material.

109.19 Certain AICPA standards that may have unique considerations in the government environment, include the following:

- *Materiality.* It may be appropriate to use a lower materiality level in Yellow Book audits than in non-Yellow Book audits due to (a) the public accountability of government entities and entities receiving government funding, (b) various legal and regulatory requirements, and (c) the visibility and sensitivity of government programs.
- *Early Communication of Control Deficiencies.* Early communication is important for some internal control deficiencies because of the significance and urgency for corrective action. When a deficiency is communicated early, it still must be included in the report on internal control and compliance the auditor issues at the end of the audit.

109.20 Yellow Book requirements for performing a financial audit that extend beyond those of the AICPA include requirements relating to:

- Auditor communication.
- Previous audits and attestation engagements.
- Fraud, noncompliance, and abuse.
- Developing elements of a finding.
- Audit documentation.

109.21 Yellow Book reporting requirements that extend beyond that of the AICPA relate to:

- Reporting the auditors' compliance with *Government Auditing Standards*.
- Reporting on internal control and compliance with provisions of laws, regulations, contracts, and grant agreements.
- Communicating deficiencies in internal control; fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; and abuse.
- Reporting views of responsible officials.
- Reporting confidential or sensitive information.
- Distributing reports.

109.22 The requirements and guidance contained in Chapters 1-4 of *Government Auditing Standards* are discussed throughout this *Guide*.

Audit Quality Concerns

109.23 **Federal IG Quality Control Review and Referral Activity** Federal IGs have continued to find audit quality problems in quality control reviews performed over the last few years. Due to the extent of problems found by IGs, an interagency, interdisciplinary task force was created to oversee a national quality control review/sampling project. The “Report on National Single Audit Sampling Project,” which included a national statistical sample of single audits, was released on June 22, 2007. (See the appendix to Chapter 1.)

109.24 **AICPA Peer Review Findings Relating to Single Audits** The AICPA Peer Review Board recently made available some of the data collected during peer reviews about the quality of single audit engagements. The AICPA has been studying the data with the goal of assisting firms in addressing challenges and providing tools aimed at increasing the quality of work done by accounting firms. In a report addressing matters noted in peer reviews through April 4, 2014, the AICPA noted the following findings relating to single audit engagements:

- The auditor's report on internal control and compliance did not contain all required elements, including findings that—
 - The word *Independent* was omitted from the report title.
 - The report did not refer to (or incorrectly referred to) material weaknesses or significant deficiencies included in the schedule of findings and questioned costs.
 - The report did not state that the entity's responses to the auditor's findings were not audited and that the auditor did not express an opinion on the responses.
- Information was not properly reported on the schedule of expenditures of federal awards, including findings that:
 - Some CFDA numbers or awards were not properly identified or included.
 - A total amount was not provided for programs with the same CFDA numbers.

- Programs were not properly presented as clusters.

- The auditor failed to properly and consistently report the results of the single audit between the auditor's reports, the schedule of findings and questioned costs, and the data collection form, including major program determination and threshold, low-risk auditee status, and evaluation of findings.

- The auditor failed to identify and test sufficient and appropriate major programs.

- The auditor failed to properly conclude and document either that an applicable compliance requirement does not apply to the entity or that noncompliance with the requirements could not have a direct and material effect on a major program.

- An auditee was improperly identified as low-risk even though the previous two data collection forms were not filed within the required period of time.

- The auditor did not fulfill its responsibilities regarding completion of the auditor portion of the data collection form.

- Audit documentation was inadequate, including findings that the auditor did not—

- Properly document the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor.

- Obtain applicable written management representations tailored to the entity and governmental audit relating to federal awards.

- Document an understanding of internal control over compliance sufficient to plan the

audit to support a low assessed level of control risk for major programs (including findings that the auditor did not consider risk of material noncompliance related to each compliance requirement and major program).

- Document internal controls over the preparation of the schedule of expenditures of federal awards.

- Document the adequacy of the planned sample size for test of controls over compliance to achieve a low level of control risk.

- Document the testing of internal controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for each major program.

AICPA Pronouncements

109.25 The AICPA accounting and audit guides *State and Local Governments* and *Not-for-Profit Entities* do not provide guidance on compliance audits of governmental or nonprofit organizations. The GAS/SA Audit Guide provides guidance on the auditor's responsibilities when performing a single audit under OMB Circular A-133 (Part II) and under the Uniform Guidance (Part III). The following AICPA pronouncements are concerned with compliance and related aspects of single audits of nonprofit organizations and governmental entities. These pronouncements are referred to throughout this *Guide*.

- AU-C 200, *General Principles and Responsibilities*.

- AU-C 210, *Terms of Engagement*.

- AU-C 230, *Audit Documentation*.

- AU-C 240, *Consideration of Fraud in a Financial Statement Audit*.

- AU-C 260, *The Auditor's Communication with Those Charged with Governance*.
- AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*.
- AU-C 580, *Written Representations*.
- AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*.
- AU-C 935, *Compliance Audits*.
- AICPA Audit Guide, *Government Auditing Standards and Single Audits (GAS/SA Audit Guide)*.

109.26 **Statement on Quality Control Standards** Statement on Quality Control Standard No. 8, *A Firm's System of Quality Control*, establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. SQCS No. 8 comprehensively addresses the quality control processes over a firm's accounting and auditing practice. The standard places an unconditional obligation on the firm to establish a QC system designed to provide reasonable assurance that the firm complies with professional standards and legal and regulatory requirements, and that it issues reports that are appropriate in the circumstances. *PPC's Guide to Quality Control* provides guidance and practice aids to assist firms in developing, implementing, and maintaining a system of quality control.

109.27 **Quality Control Auditing Standard** AU-C 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, provides requirements and application and other explanatory material to the auditor and engagement partner as they implement each element of quality control during the performance of an audit of financial statements. Thus, for every quality control element discussed in SQCS No. 8, AU-C 220 includes information that conveys how the firm ensures that the requirements of SQCS No. 8 are met in an audit engagement. The responsibility to ensure compliance with AU-C 220 is primarily placed on the audit engagement partner. However, certain requirements are also imposed on the engagement team and, if applicable, engagement quality control reviewer. In meeting the requirements of the quality control auditing standard, the engagement partner is permitted to delegate his or her responsibilities and to rely on the firm's quality control system.

109.28 The objective is for the auditor to implement quality control procedures at the engagement level that provide reasonable assurance that—

- The audit complies with professional standards and applicable legal and regulatory requirements.
- The auditor's report is appropriate in the circumstances.

109.29 **GAS/SA Audit Guide** The GAS/SA Audit Guide provides guidance for financial statement audits performed under *Government Auditing Standards* (Part I), guidance for audits conducted under the Single Audit Act and OMB Circular A-133 (Part II), and guidance for audits conducted under the Uniform Guidance (Part III). The February 2015 edition of the GAS/SA Audit Guide has been revised for recent changes in professional standards and guidance with particular relevance to single audits, including fully incorporating OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in new Part III.

109.30 **AICPA Audit Risk Alert for Single Audits** The AICPA audit risk alert for single audits, *Government Auditing Standards and Circular A-133 Developments—2014*, is prepared for auditors of organizations that receive federal awards. The risk alert provides an overview of recent industry, regulatory, and professional developments.⁷ Some of the key points are mentioned in the following paragraphs.

109.31 Legislative and Regulatory Developments. The most significant discussion topic in recent legislative and regulatory developments is the issuance of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The risk alert includes extensive coverage of the Uniform Guidance with a list of the eight circulars that it supersedes, the definitions of the terms must and should in the Uniform Guidance, crosswalk resource documents, and a summary of each of the subparts and effective dates. Updates to the Federal Audit Clearinghouse and the 2014 Compliance Supplement are also discussed.

109.32 Audit Developments. The following audit developments are discussed:

- SAS No. 128 on the use of internal auditors.
- Frameworks for internal control—both COSO's *Internal Control—Integrated Framework* and the GAO's *Green Book*.
- Government Auditing Standards and recent peer review findings.

109.33 Other Matters. The risk alert also discusses the following important developments:

- AICPA's codification of the *Code of Professional Conduct*.
- AICPA's ongoing clarity project on the attestation standards.
- Digital Accountability and Transparency Act, which was signed in May 2009.

Auditors are encouraged to review these topics to stay abreast of developments that could have a major impact on their audits.

Loss of Client Records or Audit Documentation

109.34 The AICPA has issued guidance on what auditors should do if either the client's records or the auditor's audit documentation are lost or destroyed.

109.35 The Technical Practice Aid, *Audit Considerations When Client Evidence and Corroborating Evidence in Support of the Financial Statements Has Been Destroyed by Fire, Flood, or Natural Disaster* (TIS 8345.01), addresses the impact on the auditor's report when some or all of an entity's accounting records have been destroyed. If engaged by the client, auditors would normally disclaim an opinion on the financial statements if substantially all of the supporting records have been destroyed. If appropriate, auditors may report on specific elements of the financial statements.

109.36 The Technical Practice Aid, *Considerations When Audit Documentation Has Been Destroyed by Fire, Flood, or Natural Disaster* (TIS 8345.02), addresses the destruction of audit documentation by fire, flood, or natural disaster. The authors believe the guidance also would apply if workpapers are lost, deleted, or damaged due to other circumstances. The TPA indicates that if audit documentation is destroyed prior to the issuance of the auditor's report, the auditor needs to either recreate the audit documentation for the procedures performed or re-perform the audit procedures and create new documentation. The auditor cannot issue a report indicating that he or she has performed an audit under professional standards without the required documentation. Oral explanations cannot be used as the principal support for the work that was performed. When determining whether to recreate the documentation or reperform the procedures, the auditor needs to consider whether he or she will be able to demonstrate that sufficient audit evidence has been obtained to afford a reasonable basis for expressing an opinion on the financial statements. Except for very small engagements, the authors believe it is unlikely that the auditor will be able to recreate sufficient documentation without reperforming at least some of the procedures.

PPC's Government Documents Library

109.37 In order to provide our subscribers with the most recent government documents, compliance

audit programs, and other practice aids, which reflect the most recent edition of the *OMB Compliance Supplement*, a compendium of government documents is provided in *PPC's Government Documents Library* (Library).

109.38 **Website** The Library is available on Checkpoint and may be accessed free of charge. (Customers who do not have Checkpoint access to this *Guide* and would like to request free access to the Library should send an email to rg.customerservice@thomsonreuters.com. Detailed instructions on obtaining free access to the Library are included with the print and DVD editions of this *Guide*.) The authors update the website version of the Library periodically—as necessary to keep the documents current.

109.39 **Government Documents** The following documents or links to websites where the most recent documents are posted are included in the Library.

Gov. Doc. No.	Description
1	Single Audit Act Amendments of 1996
2	<p>GAO <i>Government Auditing Standards</i> (The Yellow Book) Documents</p> <p>Gov. Doc. No. 2 includes:</p> <ul style="list-style-type: none"> • GAO's <i>Government Auditing Standards, 2011 Revision</i> • GAO's <i>Government Auditing Standards, July 2007 Revision</i> • <i>Government Auditing Standards Implementation Tool: Professional Requirements Tool for Use in Implementing the Requirements Identified by “Must” and “Should” in the July 2007 Revision of Government Auditing Standards</i> • <i>Government Auditing Standards: Answers to Independence Standard Questions</i> • <i>Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education</i>
3	OMB CIRCULAR A-21, <i>Cost Principles for Educational Institutions</i>
4	OMB CIRCULAR A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>
5	OMB CIRCULAR A-102, <i>Grants and Cooperative Agreements with State and Local Governments</i>
6	OMB CIRCULAR A-110, <i>Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i>
7	OMB CIRCULAR A-122, <i>Cost Principles for Nonprofit Organizations</i>
8	OMB CIRCULAR A-133, <i>Audits of States, Local Governments</i>

- and Non-Profit Organizations*
- 8a Revision of OMB Circular A-133 June 26, 2007
- 8b Revision of OMB Circular A-133 June 23, 2003
- 9 *OMB Compliance Supplement*
- 9a GSA-AP-5: Audit Program for Federal Award Programs—
Compliance Requirements (For Audits of Federal Awards
Made prior to December 26, 2014)
- 9b GSA-AP-6: Audit Program for Federal Award Programs—
Compliance Requirements (For Audits of Federal Awards
Made on or after December 26, 2014, and Incremental
Funding with Changed Terms and Conditions)
- 9c GSA-AP-4: Audit Program for Federal Award Programs Not
Included in the Compliance Supplement
- 9d GSA-CX-10.1: Compliance Test Worksheet—Federal Award
Programs (For Audits of Federal Awards Made prior to
December 26, 2014)
- 9e GSA-CX-10.2: Compliance Test Worksheet—Federal Award
Programs (For Audits of Federal Awards Made on or after
December 26, 2014, and Incremental Funding with Changed
Terms and Conditions)
- 10 *Uniform Administrative Requirements for Grants and
Cooperative Agreements to State and Local Governments
(OMB Common Rule)*
- 11 Data Collection Form (SF-SAC)
- 12 PCIE Position Statement Nos. 1-6
- 13 List of Contact Points for Federal Audit Organizations
- 14 *Catalog of Federal Domestic Assistance*
- 15 *Uniform Administrative Requirements, Cost Principles, and
Audit Requirements for Federal Awards*
- 15a *Federal Awarding Agency Regulatory Implementation of Office
of Management and Budget's Uniform Administrative
Requirements, Cost Principles, and Audit Requirements for
Federal Awards*
- 15b Electronic Code of Federal Regulations (2 CFR part 200)
- 16 GAO Financial Audit Manual (2008)
- 17 GSA Appendix B: Additional Checklists (Major Program
Determination Checklists for Use in OMB Circular A-133
Audits)

References in this *Guide* to government documents included in the Library are indicated by Gov. Doc. No. XX.

How to Obtain Government Documents

109.40 Many of the government documents listed in this *Guide*, as well as other OMB and GAO publications, may be obtained by calling the U.S. Government Printing Office at (866) 512-1800, or may be ordered over the Internet through its Online Bookstore at <http://bookstore.gpo.gov>. The GPO also provides online access to the Code of Federal Regulations. The regulations may be viewed online, at www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title21/21tab_02.tpl.

109.41 Auditors may also obtain certain government documents frequently used in single audits through the Internet. (See discussion beginning at paragraph 109.42.)

Electronically Accessible Audit Information

109.42 Opportunities to access electronic single audit-related information have rapidly expanded in recent years. While the following listing is not a complete directory of available sites, these sites may be helpful resources when performing single audits:

- *USA.gov*. USA.gov is the official U.S. government portal to government information, services, and online transactions. USA.gov allows access to an intergovernmental Internet network of libraries of documents, news and announcements, topical mailing lists, and discussion groups for federal, state, and local government issues. The internet address is www.usa.gov.

- *IGNet*. The following publications are available on the IGINet home page at www.ignet.gov.
 - Inspector General Directory.

 - Inspector General Home Pages.

 - Inspector General Act of 1978.

 - Inspector General Reform Act of 2008.

 - Council of the Inspectors General on Integrity and Efficiency (CIGIE) charter,

strategic business plan, mission, and other documents, including the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports* and the *Guide for Quality Control Reviews of OMB Circular A-133 Audits*.

- Report on National Single Audit Sampling Project.

- Links to numerous other Internet sites.

- *Government Accountability Office (GAO) Home Page*. The following information is available on www.gao.gov.

- *Government Auditing Standards* (the “Yellow Book”) and related guidance. Both the 2007 Yellow Book and the 2011 Yellow Book can be accessed directly at www.gao.gov/yellowbook.

- GAO reports, legal products, and other publications.

- Comptroller General presentations.

- FraudNET, which facilitates reporting of allegations of fraud, waste, abuse, or mismanagement of federal funds, and can be accessed directly at www.gao.gov/fraudnet/fraudnet.htm.

- Information about GAO's mission, history, annual report, and organization.

- Information about GAO's oversight of the Recovery Act.

- *GrantsNet*. GrantsNet is a free public-access computer network service developed by the Department of Health and Human Services (HHS). It provides access to, and allows exchange of, information about HHS and other federal grant programs. The Internet address is www.hhs.gov/grants.

- *OMB Home Page*. The following documents or links are available from the OMB at www.whitehouse.gov/omb/agency/default/.

- OMB publications including OMB Circulars and the *OMB Circular A-133 Compliance Supplement*.

- Grants management information, which can be accessed directly at www.whitehouse.gov/omb/grants_default.

- Single audit information from the Office of Federal Financial Management, Single Audit, including Circulars and links to Single Audit legislation, the CFDA, and the Federal Audit Clearinghouse. This can be accessed directly at www.whitehouse.gov/omb/financial_fin_single_audit.

- Recovery Act information, which can be accessed directly at www.whitehouse.gov/omb/recovery_default.

- Federal agency implementation of the Grants Management Common Rule (A-102 Common Rule) and OMB Circular A-110, including, “Codification of Governmentwide Grants Requirements by Department,” and “Codification of Governmentwide Grants Requirements by Agency,” both of which can be accessed directly at www.whitehouse.gov/omb/grants_chart.

- A link to grants.gov, a governmental resource to simplify federal assistance application and reporting requirements. Grants.gov (www.grants.gov) is a central storehouse for information on over 1,000 grant programs and access to awards. All federal agencies are required to post all competitive grant opportunities on this site.

The site also features a simple, unified online application procedure.

- A link to the Federal Register Notice on *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Federal Register Notice may also be accessed directly at www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards.

- *Federal Audit Clearinghouse*. The data collection form is completed and submitted using the Clearinghouse's website at <http://harvester.census.gov/facweb/default.aspx>. The website currently provides data collection forms and filing options for the 2013-2015, 2010-2012, and 2008-2009 audit years. (The Clearinghouse no longer accepts submissions for audit years before 2008.)

- *U.S. General Services Administration (GSA) Home Page*. A searchable copy of the CFDA is available on the GSA home page at www.cfda.gov.

- *Recovery.gov*. Recovery.gov (www.recovery.gov) is the primary source for information about the funding provided by the American Recovery and Reinvestment Act of 2009, including information about federal grant awards and contracts as well as formula grant allocations. Federal agencies and prime recipients provide information about how they are using the funds. The site also includes links to similar state websites and the Recovery Act.

- *Government Printing Office*. The Government Printing Office (GPO) provides access to *FDsys*, the U. S. Government Online Bookstore, libraries, and other information at www.gpo.gov/fdsys. *FDsys* is a service of the GPO that provides free electronic access to important documents and publications produced by the federal government, including:

- Government information databases.

- Permanent public access.

- Information about federal grants and awards, including regulations, legislation, publications, and other resources.
- Collections of government information available through the federal depository libraries.
- Federal agency files.

The GPO homepage and *GPO Access* provide links to the official U.S Government online bookstore, which can be accessed directly at <http://bookstore.gpo.gov>.

- *Council on Financial Assistance Reform (COFAR)*. COFAR is a significant resource for information on the Uniform Guidance, including training webcasts, crosswalks to previous standards, and Frequently Asked Questions. It can be accessed at <https://cfo.gov/cofar>.

- *AICPA Government Audit Quality Center (GAQC)*. The GAQC provides firm members with a set of best practices and tools in the specialized area of governmental auditing, including *Government Auditing Standards* and Uniform Guidance audits. It can be accessed at www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Pages/GAQC.aspx.

- *PPC Home Page*. PPC's website at tax.thomsonreuters.com contains a variety of useful governmental information, including single audit topics.

- *Checkpoint*. The “Accounting, Audit & Corporate Finance Library” section of the platform, Checkpoint, provides guidance from PPC and the standards and regulations of the AICPA, GASB, and FASB as well as audit and accounting guides and risk alerts issued by the AICPA and *Government Auditing Standards* issued by the GAO. In addition, as discussed beginning at paragraph 109.37, *PPC's Government Documents Library* is available on Checkpoint and may be accessed free of charge. Checkpoint is available at checkpoint.riag.com.

5 As discussed beginning at paragraph 108.28, the concepts (but not all of the detailed information) in the 2005 Guidance have been incorporated into the Yellow Book. The Yellow Book indicates that the 2005 Guidance is still applicable.

6 This circular is also applicable to certain governmental institutions.

7 Auditors should be alert for issuance of the 2015 edition of the risk alert and read its guidance as soon as it becomes available.

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END OF DOCUMENT -

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Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

110 American Recovery and Reinvestment Act of 2009

110 American Recovery and Reinvestment Act of 2009

110.1 The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was enacted in February 2009, provided almost \$800 billion in stimulus funds, of which approximately \$300 billion was passed through federal agencies to entities that generally are subject to single audit requirements, including state and local governments, nonprofit organizations, and institutions of higher education. These federal funds were intended to either supplement existing federal programs (e.g., existing block grants for states), create new programs, or provide more broad fiscal relief. In some cases, the Recovery Act funds were passed directly to states or institutions of higher education and spent at that level. In other cases, direct recipients of Recovery Act funds pass the funds through to subrecipients such as local governments or nonprofit organizations. Additionally, the Recovery Act awards were released in a variety of types of federal financial assistance, including grants, loans, loan guarantees, interest rate subsidies, and other types of assistance. Types of federal awards/federal financial assistance are discussed in section 204.

110.2 The Recovery Act comes with unprecedented transparency and accountability requirements. The OMB is responsible for providing guidance for Recovery Act programs and has issued guidance directed at federal agencies, recipients, and auditors. Guidance issued for federal agencies and recipients has generally been released through memorandums and Recovery Act frequently asked questions (FAQs) that can be accessed on the OMB website at www.whitehouse.gov/omb/recovery_default. This guidance is also informative for auditors.

110.3 Although many of its programs have been completed or are winding down, the Recovery Act may still affect some single audits. In addition, recipients could be in a hurry to expend Recovery Act funds in order to meet award deadlines. This amplifies the risk associated with the funds.

110.4 The Compliance Supplement is the primary means through which the OMB has provided Recovery Act guidance to auditors. The 2015 Compliance Supplement includes Recovery Act guidance in the main sections of the supplement (parts 1-7) and in Appendix VII, "Other Audit Advisories," which provides guidance on the following:

- Separate identification of Recovery Act awards on the schedule of expenditures of federal awards and the data collection form.
- Explicit identification of Recovery Act programs in audit findings.
- Removal of Recovery Act programs from the Compliance Supplement.
- Identification of Recovery Act-funded programs that are not subject to an OMB Circular A-133 or Uniform Guidance audit and are not to be included in the Schedule of Expenditures of Federal Awards or in the determination of major programs.

110.5 Part 3.1 of the 2015 Compliance Supplement, which applies to federal awards made prior to December 26, 2014, also provides guidance on auditing Recovery Act awards.⁸ Of particular interest is guidance on auditing compliance with Procurement and Suspension and Debarment as it relates to the Buy American Act. With certain exceptions, Recovery Act funds cannot be used for construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project is produced in the United States. Further information about this requirement is provided in 2 CFR part 176, Subpart B, which was amended effective March 25, 2010 [75 FR 14323], to reflect changes regarding international agreements. These changes include (a) beginning January 1, 2010, raising the threshold that applies to international agreements from \$7,430,000 to \$7,804,000 and (b) recognizing agreements or signatories to agreements subsequent to the original publication of 2 CFR part 176.

110.6 With respect to international agreements (2 CFR part 176.90, “Acquisitions Covered Under International Agreements”), the Buy American requirement is not applicable when the iron, steel, or manufactured goods used in the project are from a Party to an international agreement. (The Appendix to Subpart B of 2 CFR part 176 discusses covered recipients/subrecipients, Parties, and exclusions.) In these cases, a recipient/subrecipient is required to treat the goods and services of the applicable Party in the same manner as domestic goods and services. This applies to projects with an estimated value in excess of the current threshold and projects that are not specifically excluded from the application of those agreements. If a recipient/subrecipient is not covered by an international agreement, the only possible exceptions to the Buy American requirements are those specified in 2 CFR part 176.80, “Exceptions.”

Removal of Recovery Act Programs from the Compliance Supplement

110.7 Appendix VII of the 2015 Compliance Supplement provides important information about the removal of Recovery Act programs from the Compliance Supplement. It notes that many Recovery Act programs have been deleted from Parts 4 and 5 of the Compliance Supplement based on their

completion or limited amount of funds still subject to audit. However, if an entity has federal awards expended from these programs, they would be treated consistent with any other programs not included in the 2015 Compliance Supplement or not part of a cluster of programs. For example, if programs were deleted from a cluster, (1) the program would not be considered as part of a cluster for periods covered by the 2015 Compliance Supplement, as the 2015 Compliance Supplement does not include the program in a cluster, and (2) if the program was part of a cluster which was audited as a major program in a prior year, the normal OMB Circular A-133 or Uniform Guidance major program selection criteria and risk-based approach would apply, and the program would be considered as audited in that prior year for purposes of major program determination, including consideration of any audit findings.

Schedule of Expenditures of Federal Awards

110.8 It is important for recipients (and subrecipients) to separately track Recovery Act funds from the time they are received. Expenditures of Recovery Act funds have to be reported separately on the schedule of expenditures of federal awards. Part 176 of CFR Title 2 [2 CFR part 176.210], states:

For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. . . . This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

However, the 2013-2015 data collection form accomplishes this by providing a box in Part III, Item 6(g) to insert "Y" for Yes or "N" for No to indicate whether the federal program was funded with Recovery Act awards.

2015 Compliance Supplement

110.9 As indicated in paragraph 110.4, guidance on auditing Recovery Act awards has been provided throughout the Compliance Supplement, except for Part 3.2. GSA-AP-5, "Audit Program for Federal Award Programs—Compliance Requirements (For Audits of Federal Awards Made prior to December 26, 2014)," (which is based on Part 3.1 of the 2015 Compliance Supplement) has been updated for all changes in compliance requirements that were included in Part 3.1 of the 2015 Compliance Supplement. GSA-AP-6, "Audit Program for Federal Award Programs—Compliance Requirements (For Audits of Federal Awards Made on or after December 26, 2014, and Incremental Funding with Changed Terms and Conditions)" is based on Part 3.2 of the 2015 Compliance Supplement. This new audit program is used for audits of federal awards made on or after December 26, 2014 and funding increments (additional finding on existing awards) with modified terms and conditions awarded on or after that date.

110.10 Appendix VII of the 2015 Compliance Supplement identifies (by program name, CFDA number, and federal grantor) four Recovery Act-funded programs that are not subject to an OMB Circular A-133 or a Uniform Guidance audit and are not to be included in the Schedule of Expenditures of Federal Awards or in the determination of major programs.

Internal Control Considerations

110.11 **Interim Communication of Control Deficiencies** OMB has encouraged auditors to communicate deficiencies in internal control over compliance relating to Recovery Act awards before their clients' single audits are completed. The AICPA issued three auditing interpretations on interim communication of control deficiencies in a single audit involving Recovery Act awards. These interpretations explain the circumstances under which the interim communications may be made and provide illustrative report language. Auditors are not permitted to issue an interim communication stating that, as of the interim date, no significant deficiencies or material weaknesses were identified. The interim communications are discussed in section 1109. An illustrative communication is provided at Appendix 11D.

110.12 **Quality Control Reviews.** The OMB has instructed the Offices of Inspector General (OIGs) to perform quality control reviews to ensure that single audits are properly performed and improper payments and other noncompliance are fully reported. OIGs have increased their follow-up reviews of single audit quality and have placed an emphasis on Recovery Act awards. Paragraph 103.11 and section 1202 discuss updated guidance for performing desk reviews and quality control reviews of OMB Circular A-133 audits that was issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE) in 2010 and updated in 2015.

Where to Find More Information

110.13 Several resources are available on the Internet for information on Recovery Act funds. These include:

- www.recovery.gov. This website is the public's primary source for information about the American Recovery and Reinvestment Act. It explains the Recovery Act; shows how, when, and where the money is spent; and provides data to allow individuals to evaluate progress and provide feedback. It also provides links to related information such as the Recovery Act, itself, the Code of Federal Regulations, agency web pages, and state web pages.
- *Federal Department and Agency Websites.* All federal departments and agencies receiving Recovery Act stimulus funding have established their own Recovery Act web pages on their existing websites. (Information still has to be submitted to recovery.gov, though.)
- *State Websites.* Many states also have established web pages to provide information about their receipt and use of Recovery Act funds.

- www.whitehouse.gov/omb/memoranda_default. This website provides detailed information to federal agencies about how to conduct programs and activities relating to the Recovery Act. The authors recommend auditors review the following memoranda:

- OMB's March 22, 2010, memorandum, M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*. Item 7 of this guidance might be of particular interest to auditors. It states that agencies should not grant extensions for fiscal years 2009 through 2011. This includes extension of the time period for filing the reporting package and data collection form with the Federal Audit Clearinghouse. It further states that in order for an entity to be considered a low-risk auditee, it must have submitted the reporting package and data collection form for each of the two prior years to the Federal Audit Clearinghouse by the due date.

- OMB's September 15, 2011, memorandum M-11-34, *Accelerating Spending of Remaining Funds from the American Recovery and Reinvestment Act for Discretionary Grant Programs*, which requires federal agencies to accelerate spending of remaining Recovery Act funds for discretionary grant programs so that projects are completed by September 30, 2013. It also directs agencies to revise the terms of Recovery Act discretionary grant agreements, to the extent permitted by law, to provide for reclamation of funds that remain unspent after September 30, 2013 (absent a waiver issued by OMB pursuant to Memorandum M-11-34).

- www.whitehouse.gov/omb/recovery_default. This website provides OMB memoranda and responses to Frequently Asked Questions that are specific to Recovery Act awards.

- <http://gaqc.aicpa.org>. This is the AICPA's Governmental Audit Quality Center website that provides resources specific to OMB Circular A-133 audits.

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Checkpoint Contents

Accounting, Audit & Corporate Finance Library

Editorial Materials

Government

Single Audits

Chapter 1 Introduction and Overview

111 Uniform Guidance

111 Uniform Guidance

Introduction

111.1 In December 2013, OMB published in the Federal Register *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), which establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements. The Federal Register publication can be accessed at <https://federalregister.gov/a/2013-30465>. The Uniform Guidance itself is located in Title 2 of the Code of Federal Regulations. (2 CFR part 200). The most current version of 2 CFR part 200 of the electronic Code of Federal Regulations can be directly accessed at www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.

111.2 In December 2014, a number of federal agencies and departments, including the OMB, issued *Federal Awarding Agency Regulatory Implementation of Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, which implements the Uniform Guidance across federal grant-making agencies through a “joint interim final rule.” This rule, which was published in the December 19, 2014, Federal Register, is necessary in order to incorporate into regulation and thus bring into effect the Uniform Guidance as required by OMB. The joint interim final rule is effective for new awards made on or after December 26, 2014.

111.3 The GAS/SA Audit Guide, Paragraph 16.78, further explains that some federal agencies received OMB approval to make exceptions to regulations in the Uniform Guidance. It could be difficult for nonfederal entities and their auditors to determine such exceptions and their effect on the audit. Appendix VII of the 2015 Compliance Supplement summarizes, by federal agency, the Uniform Guidance sections that have exceptions. Appendix II to the 2015 Compliance Supplement identifies agencies that did not request any exceptions. The complete listing and text of the exceptions is available at <https://cfo.gov/wp-content/uploads/2014/12/Agency-Exceptions.pdf>. Because these listings may not be the most current or complete, auditors should also refer to applicable agency regulations. Auditors may also find it helpful or necessary to consult with the federal

awarding agency about the exceptions.

Overview of the Uniform Guidance

111.4 The Uniform Guidance supersedes, streamlines, and consolidates the following eight OMB Circulars into a single document, with variations by type of entity:

- A-21, *Cost Principles for Educational Institutions*

- A-87, *Cost Principles for State, Local, and Indian Tribal Governments*

- A-89, *Catalog of Federal Domestic Assistance*

- A-102, *Grants and Cooperative Agreements with State and Local Governments*

- A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*

- A-122, *Cost Principles for Non-Profit Organizations*

- A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

- A-50, *Audit Followup* (guidance on Single Audit Act follow-up only)

111.5 All of the previously mentioned guidance, as streamlined and consolidated, is incorporated in the Uniform Guidance in the following sections of 2 CFR Part 200:

Subpart A	Acronyms and Definitions	200.0-200.99
Subpart B	General Provisions	200.100-200.113
Subpart C	Pre-Federal Award Requirements and Contents of Federal Awards	200.200-200.211

Subpart D	Post Federal Award Requirements	200.300-200.345
Subpart E	Cost Principles	200.400-200.475
Subpart F	Audit Requirements	200.500-200.521

111.6 The following 11 Appendixes are provided after Subpart F:

- I, Full Text of Notice of Funding Opportunity

- II, Contract Provisions for Non-Federal Entity Contracts Under Federal Awards

- III, Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)

- IV, Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

- V, State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans

- VI, Public Assistance Cost Allocation Plans

- VII, States and Local Government and Indian Tribe Indirect Cost Proposals

- VIII, Nonprofit Organizations Exempted From Subpart E, Cost Principles, of Part 200

- IX, Hospital Cost Principles

- X, Data Collection Form (Form SF-SAC)

- XI, Compliance Supplement

111.7 **Effective Dates** The main date to focus on is December 26, 2014:

- Federal agencies were required to implement policies and procedures through regulations to be effective December 26, 2014.
- Nonfederal entities (i.e., award recipients) have to implement the new administrative requirements and the cost principles for all new federal awards made after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date.
- Auditors have to implement the audit requirements for audits of fiscal years beginning on or after December 26, 2014; early implementation by auditors is not permitted. Therefore, the first single audits performed under the new audit guidance will be those for entities with years ending December 31, 2015.
- All new administrative requirements, cost principles, and audit requirements are applicable for years ending December 26, 2015, or thereafter.

111.8 Transition Considerations. As indicated previously, award recipients with fiscal years ending after December 26, 2014 (for example, ending March 30, 2015; June 30, 2015; or September 30, 2015) have to implement the new administrative requirements and cost principles for all new federal awards and for funding increments with modified terms and conditions awarded on or after December 26, 2014. Thus, awards could be subject to two different sets of requirements—awards existing at December 26, 2014, including funding increments that do not have modified terms and conditions are subject to the previous administrative requirements and cost principles. New awards made after December 26, 2014, and funding increments with modified terms and conditions awarded on or after that date are subject to the Uniform Guidance. Although auditors must continue to follow the previous *audit* requirements for audits of years ending before December 31, 2015, the audit could be affected by the need to test awards that are subject to different requirements.

111.9 Paragraph 16.77 of the GAS/SA Audit Guide explains that major programs may include expenditures from federal awards subject to the pre-Uniform Guidance requirements, as well as federal awards subject to the Uniform Guidance requirements for several more years. When testing major program transactions, it is important for the auditor to identify the date of the award related to a

particular expenditure in order to determine the applicable criteria to use for the transaction being tested. However, it is not necessary to choose separate samples for testing.

Changes to the Single Audit Process and Reporting Requirements

111.10 Changes to the Single Audit Process The changes for auditors performing, and auditees undergoing, a single audit are numerous. Some of the more significant changes from the superseded guidance in OMB Circular A-133 to the guidance located in Subpart F—Audit Requirements of the Uniform Guidance are as follows:

- The single audit threshold has increased to \$750,000 of federal award expenditures in a year.
- The minimum threshold for Type A/B program determination has increased to \$750,000.
- In a first year audit engagement, the auditor may no longer determine major programs as all Type A programs plus any Type B programs necessary to reach the percentage of coverage rule.
- The auditor may no longer use inherent risk in determining whether a Type A program has a significantly increased risk.
- The criteria for determining low-risk Type A programs were revised. For a Type A program to be considered low-risk, all of the following criteria must be met:
 - The program was audited as a major program in one of the two most-recent audit periods.
 - In the most-recent audit period, it did not have any of the following:
 - Internal control deficiencies identified as material weaknesses in the auditor's report on internal control for major programs (a significant deficiency in internal control will no longer preclude a Type A program from being low-risk).

— A modified opinion on the program in the auditor's report on major programs.

— Known or likely questioned costs exceeding 5% of the total federal awards expended for the program.

- The Type B program requirements have changed as follows:
 - There is no longer an option 1 and option 2 when determining how many Type B programs need to be risk assessed.
 - The number of high-risk Type B programs that must be tested as major programs has been reduced. The auditor is not required to test more high-risk Type B programs than at least one-fourth the number of low-risk Type A programs.
 - The small program floor has changed. The auditor is required to perform risk assessments only on Type B programs that exceed 25% of the Type A threshold.
- The percentage of coverage requirement has been changed to 40% (non-low-risk auditee) and 20% (low-risk auditee).
- The criteria for low-risk auditee status has changed as follows:
 - A requirement was added that, for each of the two preceding audit periods, the auditor did not report substantial doubt about the entity's ability to continue as a going concern.

- Both the auditor's opinion on whether the financial statements were prepared in accordance with GAAP (or a basis of accounting prescribed by state law) and the in-relation-to opinion on the schedule of expenditures of federal awards must have been unmodified.

- The provision for waivers by a cognizant or oversight agency was eliminated.

- The threshold for reporting questioned costs has been increased to \$25,000.

- The requirements related to the schedule of expenditures of federal awards (SEFA) were revised as follows:

- All expenditures of federal awards, including noncash assistance and loan programs, have to be presented on the face of the SEFA.

- Requirements were added for certain types of expenditures; for example, the SEFA must include total expenditures for a cluster of programs and the total amount provided to subrecipients for each federal program.

111.11 Changes to Reporting Requirements Several changes to reporting requirements, including submission of the reporting package, affect the auditor and/or the auditee. The more-significant changes are as follows:

- The Summary Schedule of Prior Audit Findings has to describe the reason for recurrence of an audit finding if a prior year finding was not fully corrected.

- Both the auditee and the auditor must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

- The statement signed by a senior-level representative of the auditee in conjunction with submission of the data collection form must include that the reporting package does not contain protected personally identifiable information and that the Federal Audit Clearinghouse is authorized to make the reporting package and the form publicly available on a website. (Indian tribes may elect to not authorize the Federal Audit Clearinghouse to make the reporting package publicly available by excluding such authorization in this statement.)

- Changes affecting the reporting of audit findings include the following:

- The threshold for reporting known questioned costs increased to \$25,000 (from \$10,000).

- Both known and likely fraud affecting federal awards must be reported.

- Audit findings must include significant instances of abuse relating to major programs.

- The schedule of findings and questioned costs must include the views of responsible officials for all findings, not only those where there is a disagreement.

- The required elements have to include a statement as to whether a finding is a repeat finding from the immediately prior audit and, if applicable, any prior year audit finding number(s).

- The required elements should include a statement as to whether the auditor's sampling was a statistically valid sample.

- Each finding must include a reference number in the format required for data collection form submission.

- The cause of a finding should be included (in addition to the possible effect). (This requirement had previously not been explicitly stated.)

- Federal agencies do not have the authority to grant extensions of the due date for submitting reports.

111.12 **Other Notable Changes** Some other changes auditors may want to note include the following:

- The term *vendor* has been replaced with the term *contractor*. Accordingly, consideration will be given to whether an entity is a subrecipient or a contractor, not a subrecipient or a vendor.
- Consistent with the use of the term *must* in GAAS and Government Auditing Standards, use of *must* in the Uniform Guidance indicates a requirement. However, the word *should* is used throughout 2 CFR part 200 to indicate a best practice or recommended approach, not a presumptively mandatory requirement.
- Several changes were made to subrecipient monitoring requirements, including the following:
 - Pass-through entities must evaluate each subrecipient's risk of noncompliance for purposes of determining appropriate subrecipient monitoring.
 - A subrecipient is no longer required to submit its reporting package directly to a pass-through entity.

COFAR Resources

111.13 The Council on Financial Assistance Reform (COFAR) is a significant resource for information on the Uniform Guidance, including training webcasts, crosswalks to previous standards, and Frequently Asked Questions (FAQs). The most current version of the FAQs is available at <https://cfo.gov/wp-content/uploads/2015/09/9.9.15-Frequently-Asked-Questions.pdf>. Part 3 of

the 2015 Compliance Supplement states that the FAQs provide additional information about the implementation of 2 CFR part 200 and that auditors should consider the FAQs in the single audit work plan and reviews.

Coverage in this *Guide*

111.14 The Uniform Guidance has been fully incorporated throughout this *Guide*, including the existing practice aids as well as some new ones. Important changes to the practice aids include the following:

- GSA-AP-5: this existing “Audit Program for Federal Award Programs—Compliance Requirements (For Audits of Federal Awards Made prior to December 26, 2014)” was updated based on Part 3.1 of the 2015 Compliance Supplement and is used for audits of federal awards made before December 26, 2014.
- GSA-AP-6: this new “Audit Program for Federal Award Programs—Compliance Requirements (For Audits of Federal Awards Made on or after December 26, 2014, and Incremental Funding with Changed Terms and Conditions)” is based on Part 3.2 of the 2015 Compliance Supplement and is used for audits of federal awards made on or after December 26, 2014, and funding increments (additional finding on existing awards) with modified terms and conditions awarded on or after that date.
- GSA-CX-10.1: this existing “Compliance Test Worksheet—Federal Award Programs (For Audits of Federal Awards Made prior to December 26, 2014)” was updated based on Part 3.1 of the 2015 Compliance Supplement and is used in conjunction with GSA-AP-5.
- GSA-CX-10.2: this new “Compliance Test Worksheet—Federal Award Programs (For Audits of Federal Awards Made on or after December 26, 2014, and Incremental Funding with Changed Terms and Conditions)” is based on Part 3.2 of the 2015 Compliance Supplement and is used in conjunction with GSA-AP-6.

111.15 In addition, the following checklists have been renamed and updated for use in determining major programs under the Uniform Guidance:

- GSA-CX-1.5: “Single Audit and Major Program Determination Worksheet—Uniform Guidance Audits.”

- GSA-CX-1.6: “Low-risk Federal Determination Worksheet—Uniform Guidance Audits.”

- GSA-CX-1.7: “High-risk Federal Determination Worksheet—Uniform Guidance Audits.”

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