

## THE PPC

## GOVERNMENTAL UPDATE

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## OMB Releases Revised Compliance Supplement



**O**n September 20, 2019, the OMB released a revised edition (dated August 2019) of the 2019 Compliance Supplement. *The August 2019 edition replaces the June 2019 edition in its entirety.* As discussed in the October 2019 issue of this newsletter, the revised edition was necessary due to a significant number of errors and other issues that were identified by the AICPA and other stakeholders as they reviewed the initial edition.

### Corrections Made

The August 2019 edition of the Compliance Supplement contains an “Errata Page” section after the Table of Contents that identifies the corrections and other changes made. The changes impact approximately 60 federal award programs. The OMB has placed the term “revised” in the footer of pages with changes to assist users in identifying where changes were made. However, certain pages with minor changes are not marked as revised. The changes made in the revised Compliance Supplement

do not address all of the questions and errors raised in the AICPA comment letter to the OMB. There continue to be certain areas in the revised Compliance Supplement that have inconsistencies or other issues. Most of the changes in the revised edition were made in Part 2, Matrix of Compliance Requirements; Part 4, Agency Program Requirements; and Part 5, Clusters of Programs.

### Advice for Auditors about Engagements in Process and Uncorrected Items

In GAQC Alert No. 387 (located at [www.aicpa.org/interestareas/governmentalauditquality/resources/singleaudit/2019-omb-compliance-supplement.htm](http://www.aicpa.org/interestareas/governmentalauditquality/resources/singleaudit/2019-omb-compliance-supplement.htm)), the GAQC staff notes that they are aware that some June 30, 2019, single audits have been completed and that they may include major programs that have been corrected or changed in the revised Compliance Supplement. The GAQC has asked OMB

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to issue definitive guidance about OMB's expectation for these completed audits—with the GAQC advocating that the federal government accept the completed audits as originally performed. Auditors should be alert for additional information from the OMB or the AICPA on this issue. Also, the Alert recognizes that some auditors may have completed single audit fieldwork or are close to issuing compliance audit opinions and have concerns about the timing of the revised Compliance Supplement's issuance. To the extent such audits include a program that has now been changed and auditors are looking for direction, the GAQC recommends that auditors contact the relevant agency National Single Audit Coordinator (NSAC) using the contact information in Appendix VIII of the Compliance Supplement.

Similarly, for errors or areas that the AICPA requested OMB provide clarification on that were not addressed in the revised edition, the Alert suggests that auditors contact the NSAC for advice (and document that consultation) when they identify errors, requirements, or procedures that are unclear.

### Practical Consideration:

The changes in the August 2019 Compliance Supplement do not affect the practice aids in the 2019 edition of *PPC's Guide to Single Audits (GSA)*. *PPC's SMART Practice Aids—Single Audit Suite* contains updated information from the August 2019 Compliance Supplement. Auditors should document in their workpapers that they used the August 2019 Compliance Supplement when performing single audit procedures.



## Reporting under the 2019 Compliance Supplement

In response to questions by its members, the AICPA has issued three nonauthoritative Technical Questions and Answers, at Q&A 9110.25–.27 (with background information at 9110.24) regarding the 2019 Compliance Supplement.

They state that changes to the 2019 Compliance Supplement's approach for identifying the types of compliance requirements subject to the compliance audit (instead of those being applicable) do not warrant a change in the auditor's reporting on compliance. However, Q&A 9110.27 states that auditors are not precluded from including an other-matter paragraph in the auditor's report to communicate information about the change in the Compliance Supplement, if desired.



### Practical Consideration:

The Q&As are available at [www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html](http://www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html) and on Checkpoint at [checkpoint.riag.com](http://checkpoint.riag.com). The Q&As do not change the reporting guidance or illustrations in current PPC products.

## AICPA Aligns Auditing Standards with PCAOB

In May 2019, the AICPA issued SAS No. 135, *Omni-bus Statement on Auditing Standards—2019*, which amends 13 sections of the Statements on Auditing Standards. The amendments result from the evaluation of three auditing standards that have been issued by the Public Company Accounting Oversight Board (PCAOB) since the AICPA's Auditing Standards Board (ASB) completed its auditing standards clarity project: AS 1301, *Communication With Audit Committees*; AS 2701, *Supplementary Information*; and AS 2410, *Related Parties*. The ASB determined that these PCAOB standards included guidance not found in current SASs that enhance audits of the financial statements of nonissuers. Based on its review and evaluation of the PCAOB standards, the ASB made certain amendments to existing GAAS.

No changes were considered necessary related to AS 2701 on supplementary information. However, amendments were made based on the ASB's review of AS 1301 on communication with audit committees and AS 2410 on related parties. The following paragraphs discuss certain of the significant changes being made by the SAS.

## Communication with Audit Committees

The changes arising from AS 1301 impact AU-C 260, *The Auditor's Communication With Those Charged With Governance*. These changes add requirements for the auditor to communicate views pertaining to the governmental unit's significant unusual transactions and matters for which the auditor consulted outside the engagement team that may be relevant to the responsibility of those charged with governance to oversee the financial reporting process. In addition, the auditor should communicate the possible effects of uncorrected misstatements on future period financial statements. The auditor is not required to communicate required communications at the same level of detail if these communications are made by management. However, the auditor should be present for these communications and should document the details of these communications in the workpapers.

## Related Parties

Amendments that result from the evaluation of AS 2410 primarily affect AU-C 550, *Related Parties*. These amendments are intended to sharpen the auditor's focus on related parties, relationships, and associated transactions. The SAS enhances existing requirements to identify related parties or significant related-party transactions that were previously unidentified or undisclosed. Also, the auditor's response to the risks of material misstatement relating to related parties, relationships, and associated transactions is enhanced by including procedures for testing the completeness and accuracy of related parties, relationships, and transactions.

This is accomplished by requiring auditors to do the following:

- Perform additional inquiries of—
  - Management and others within the governmental unit regarding the business purpose of entering into a transaction with a related party versus an unrelated party.
  - Management and others within the governmental unit regarding whether there are any related-party transactions that haven't been properly authorized and approved, if there were any exceptions to the authorization/approval process, and the reasons for granting those exceptions.
  - Those charged with governance related to their understanding of the governmental unit's significant relationships and transactions with related parties, if they have any concerns with the

relationships or transactions with related parties, and, if so, the substance of those concerns.

- Evaluate whether the governmental unit has properly identified its related-party relationships and transactions through procedures to test the accuracy and completeness of the related-party relationships and transactions identified by the governmental unit.
- Perform procedures on balances with affiliated entities as of concurrent dates, even if fiscal years of the respective entities differ, to address the risks of material misstatement associated with the governmental unit's accounts with affiliates.

In addition, amendments to AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, require communication with component auditors about the nature of relationships and transactions with related parties.

## Significant Unusual Transactions

Amendments to AU-C 240, *Consideration of Fraud in a Financial Statement Audit*, address significant unusual transactions in the following ways:

- Defining *significant unusual transactions* as those that are either outside the governmental unit's normal course of business or appear unusual due to timing, size, or nature.
- Adding an additional management inquiry requirement regarding whether the governmental unit has entered into any significant unusual transactions. If any, the auditor should also ask for details concerning the nature, terms, and business purpose and whether such transaction(s) were with a related party.
- Requiring the design and performance of procedures addressing the risk of management override of controls to include: reading the underlying documentation supporting the business purpose of significant unusual transactions and evaluating the consistency with explanations from inquiries and other audit evidence; determining whether these transactions have been properly authorized and approved in accordance with established policies and procedures; and evaluating whether identified significant unusual transactions have been properly accounted for and disclosed in the financial statements.

## Other Amendments

The following AU-C sections are also amended to enhance guidance regarding related parties and significant unusual transactions:

- AU-C 265, *Communicating Internal Control Deficiencies Identified in an Audit*; AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; AU-C 330, *Performing*

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*Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*; AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*; and AU-C 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, include mostly conforming terminology changes related to significant unusual transactions. AU-C 330 also states that substantive procedures that consider the types of potential misstatements that could result from significant unusual transactions may be necessary when determining risks of material misstatement due to error or fraud.

- AU-C 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*, includes an amendment to enhance guidance relating to obtaining information about related parties and significant unusual transactions from predecessor auditors.
- AU-C 560, *Subsequent Events and Subsequently Discovered Facts*, includes an amendment intended to

enhance guidance relating to obtaining information about subsequent events by expanding the list of possible inquiries to include related parties and significant unusual risks.

- AU-C 580, *Written Representations*, and AU-C 930, *Interim Financial Information*, were amended to add a couple of additional representations an auditor may want to obtain for support that any related-party transactions were conducted on terms equivalent to an arm's-length transaction and whether any written or oral side agreements or other arrangements exist that haven't been disclosed to the auditor.

SAS No. 135 is effective for audits of financial statements for periods ending on or after December 15, 2020, with earlier implementation permitted.

**Practical Consideration:**

The SAS is on Checkpoint at [checkpoint.riag.com](http://checkpoint.riag.com).

