

THE PPC GOVERNMENTAL UPDATE

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2021 Compliance Supplement Addenda Issued



On December 3, 2021, the Office of Management and Budget (OMB) issued Addendum 1 to the 2021 OMB Compliance Supplement that adds one new program and makes changes to one existing program. Addendum 1 was issued to update the Compliance Supplement for new programs and modifications to existing programs due to the American Rescue Plan (ARP) Act that was signed into law on March 11, 2021.

On January 19, 2022, the OMB issued Addendum 2 to the 2021 Compliance Supplement. Addendum 2 adds four new programs and makes changes to three existing programs.

New and Existing Programs in Addendum 1

Addendum 1 expands Part 4 to address compliance requirements for the following federal award programs:

- New ARP-related programs:
 - 21.027 Coronavirus State and Local Fiscal Recovery Funds

- Existing programs with ARP-related funding:
 - 84.425 Education Stabilization Fund (ESF)

New and Existing Programs in Addendum 2

Addendum 2 expands Part 4 to address compliance requirements for the following federal award programs:

- New ARP-related programs:
 - 10.542 Pandemic EBT—Food Benefits
 - 10.649 Pandemic EBT—Administrative Costs
 - 20.315 National Railroad Passenger Corporation Grants
 - 93.499 Low Income Household Water Assistance Program
- Existing programs with ARP-related funding:
 - 14.871 Section 8 Housing Choice Vouchers
 - 93.575 Child Care and Development Block Grant [Child Care and Development Fund Cluster (93.489)]

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For ARP-related programs that are not included in the addenda, auditors should continue to use the guidance in Part 7 of the 2021 Compliance Supplement to identify and document compliance requirements that are applicable, and direct and material, to the program. The practice aids for *PPC's Guide to Audits of Local Governments* and *PPC's Guide to Single Audits* include an audit program based on Part 7.

The addenda had no effect on sections of the 2021 Compliance Supplement other than those noted herein.

Transition Guidance—Looking Back and Looking Forward

Both Addendum 1 and Addendum 2 are effective for audits of fiscal years beginning after June 30, 2020, (the same as the 2021 Compliance Supplement) and must be used in conjunction with the 2021 Compliance Supplement to determine appropriate audit procedures.

Prior to the addenda being released, AICPA representatives, industry opinion leaders, and our authors strongly urged auditors of entities that received ARP awards (whether through new or existing programs) that were expected to be addressed in the addenda not to complete and report on their June 30, 2021, or later single audits until the Compliance Supplement addenda had been analyzed, unless such expenditures were clearly immaterial. However, both Addendum 1 and Addendum 2 indicate that single audit reports dated prior to the issuance of the respective addenda are not required to be retroactively amended to apply their guidance.

The OMB has indicated that there will be no further revisions or addenda to the 2021 Compliance Supplement until it is superseded by the 2022 Compliance Supplement that will be effective for audits of fiscal years beginning after June 30, 2021 (fiscal years ending June 30, 2022, and later).

Practical Consideration:

The Compliance Supplement addenda can be accessed at www.cfo.gov/2021-addendum-1and2/ (separate PDF files by program). PPC's SMART Practice Aids—Single Audit has been updated to incorporate the 2021 Compliance Supplement addenda.

Is Your Governmental Audit a “Group Audit”?

Many auditors assume they don't have a group audit and therefore don't determine and document their consideration of whether their audit engagement is a group audit. Because group audits have specific auditing requirements under generally accepted auditing standards (GAAS), it's important to assess whether your audit is a group audit.

Definitions Relevant to Group Audits

AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* indicates *group audits* are audits of group financial statements, which are financial statements that include the financial information of more than one component.

A *component* is any entity or business activity for which group or component management prepares financial information required by accounting standards to be included in group financial statements. AU-C 600.A5 explains that in audits of state and local governments, a component may be a separate legal entity reported as a component unit or part of the governmental entity, such as a business activity, department, or program.

The AICPA's Audit Guide *State and Local Governments* (SLG), Paragraph 4.105, indicates that, by definition, a component unit is a component; however, because the AU-C 600 definition of a component is broader than the GASB definition of a component unit, the group engagement team might identify components that are not component units. For example, a major special revenue fund that is not a component unit could, based on the AU-C 600 definition, be identified as a component that is a business activity.

SLG, Paragraph 4.100, explains that the use of multiple opinion affects how AU-C 600B is applied. Because auditors report separately on each opinion unit based on separate audits, the concept of group audits considers each opinion unit to be equivalent to its own group. As a result, the requirements of AU-C 600B would typically apply only if an opinion unit contains more than one component or the opinion unit is audited by other auditors.



SLG, Paragraph 4.103, explains that opinion units that are most likely to have more than one component include the aggregate remaining fund information (which often includes pension trust funds, investment trust funds, and similar activities) and the aggregate discretely presented component units (which often have more than one component unit). On the other hand, the financial statements of the governmental and business-type activities opinion units generally do not have to be considered when identifying components, because those financial statements are formed by combining the financial statements of the underlying major funds and aggregate remaining fund information, which are separate opinion units on which the auditor expresses separate opinions.

Special Considerations for Group Audits

If the financial statements being audited include financial information of more than one component:

- Identify all the potential components.
- For each component identified, determine their relationship to the group financial statements.
- Identify the significance to the group engagement of each component identified and the work to be performed.

Planning and performing an audit of group financial statements involves the same steps, procedures, and decisions as in any audit performed under GAAS. But in a group audit, each of those steps has special considerations. Some of those considerations include:

- Identifying the risks of material misstatement particularly relevant to the group audit, including the consolidation process.
- Determining who the component auditor is. If an entity has components, there are component auditors. *Component auditors* perform work on the financial information of a component that will be used as audit evidence for the group audit. They may be a member of the group engagement team, part of the group engagement partner's firm, a network firm of the group auditor, or another auditing firm. The requirements of AU-C 600 that apply depend on who is auditing the components.
- Deciding whether to test the operating effectiveness of group-wide controls and whether the engagement team or component auditor should perform the testing.
- Designing and performing audit procedures on the consolidation process, including procedures to evaluate the appropriateness, completeness, and

accuracy of the consolidation adjustments and reclassifications.

- Designing and conducting appropriate communications between the group engagement team and the component auditors. AU-C 600.50 indicates that the audit documentation should include written communications between the group engagement team and component auditors about the group engagement team's requirements. (AU-C 600.50 also lists other documentation requirements.)
- Evaluating the component auditor's communication and the sufficiency of their work.
- Communicating with management and those charged with governance of the group about specific matters relevant to the group audit.
- Determining whether the group auditor will assume responsibility for the work performed by the component auditors or will make reference to them in the audit report.
- Determining materiality of components and determining procedures when assuming responsibility for the work of component auditors.

Practical Consideration:

ALG-CX-3.5 assists auditors in documenting and analyzing group audits.



SAS No. 134-compliant HUD For-profit Multifamily Auditor's Reports

Though HUD has not yet issued for-profit multifamily example auditor's reports that are compliant with SAS No. 134 and related SASs, it has authorized the AICPA Governmental Audit Quality Center (GAQC) to release final drafts of the reports that it submitted for final clearance. The new reporting language resulting from SAS No. 134 and related SASs is effective for years ending on or after December 15, 2021.

When we published *PPC's Guide to HUD Audits* in the fall of 2021, HUD indicated they would issue their example reports by the end of 2021. As a result, we

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included reserved appendixes for the illustrative reports in Appendixes 8A, 8B, 8C, and 8D, directing customers to access our customer support site once HUD issued their example reports and our illustrative reports became available.

We have developed reports for those appendixes based on the final HUD drafts submitted for clearance and released by the GAQC. PDFs of those reports are available on the Thomson Reuters Customer Support

website at https://thomsonreuterstaxsupport.secure.force.com/pkb/pkb_Home. They can be converted to Word using the Adobe Export feature. In addition, we have re-released the Checkpoint Tools versions of these practice aids that are now available for download. If HUD releases final example reports that substantively differ from our illustrative reports, we will revise and repost our reports.

