

THE PPC

GOVERNMENTAL UPDATE

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Revised Independence of Government Client Affiliates Now Effective



In June of 2019, the AICPA issued a revised ethics interpretation, *State and Local Government Client Affiliates* (ET 1.224.020) (the interpretation). Due to the revised interpretation being effective as of the beginning of the year under audit, the new rules are already in effect for 2022 calendar year-end government audits. Government auditors are encouraged to familiarize themselves with the new rules.

In October 2020, as a follow-up to the interpretation, the AICPA issued *Implementation Guide—State and Local Government Client Affiliates* (the implementation guide) with its primary purpose being to help auditors understand which entities are affiliates of their financial statement attest clients (FSAC). The effective date of the interpretation, as amended, is for years beginning after December 15, 2021 (generally years ending after December 15, 2022).

Interpretation Recap

The interpretation requires auditors to determine whether they are independent of an affiliate of their state and local government FSAC. In addition, the interpretation refers auditors to the *Conceptual*

Framework for Independence when they encounter threats to independence and provides examples of those threats. It also discusses nonattest services provided to an affiliate and introduces the concept of minimal influence in determining whether an entity meets the definition of an affiliate. Finally, the interpretation discusses the auditor's responsibility to identify affiliates and provides steps to take if the auditor is unable to obtain information to identify affiliates. An affiliate is an entity requiring independence, including those that the applicable reporting framework requires to be included in the FSAC's financial statements, even though they may be excluded.

Implementation Guide

Recap

The main purpose of the implementation guide is to help auditors understand which entities are affiliates of their FSACs. The implementation guide contains several tools to assist the auditor, such as decision trees, an interactive Excel template, exhibits, examples, and survey tools or "calculators" for entities and investment.

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Practical Consideration:

A checklist, **ALG-CX-1.11**, is provided in *PPC's Guide to Audits of Local Governments* to assist auditors in identifying affiliates and whether the affiliate qualifies for the exception provided in the interpretation. Additionally, the independence forms at **ALG-CX-1.2** and **ALG-CX-1.3** have been updated to assist auditors in meeting the independent requirements that are applicable to the attest client's affiliates.

Actions for Auditors to Take Now

Auditors need to consider whether there are any new affiliates under the interpretation that require independence. Auditors must also consider whether there may be circumstances and relationships with existing affiliates that pose a threat to independence. If threats exist, auditors may also find it necessary to refer to the Conceptual Framework for determining if threats to independence exist. Take into consideration any employment relationships, nonattest services provided, and financial interests of FSACs and their affiliates. The implementation guide provides examples of scenarios that provide an idea on how to apply the Conceptual Framework. Auditors should consider using the tools in the guide to help identify affiliates.

Practical Consideration:

Consider accessing the revised interpretation, implementation guide, and tools as follows:

- Revised interpretation:
<https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2019/2019-august-official-release-slg.pdf>
- Implementation guide:
<https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/downloadabledocuments/toolkitsandaids/implementation-guide-state-and-local-government-client-affiliates.pdf>
- Interactive SLG affiliate matrix:
<http://aicpa.org/content/dam/aicpa/interestareas/professionalethics/resources/downloadabledocuments/toolkitsandaids/interactive-slg-affiliate-matrix.xltx>
- SLG affiliate calculator for entities:
<https://www.surveymonkey.co.uk/r/Entityaffiliateevaluator>
- SLG affiliate calculator for investments:
<https://www.surveymonkey.co.uk/r/Investmentaffiliateevaluator>

For-profit Provider Relief Funds Audits

In response to the coronavirus pandemic, the U.S. federal government has provided financial awards to various types of healthcare entities, including governments, nonprofits, and for-profit entities. Much of these funds have been provided through the U.S. Department of Health and Human Services (HHS), administered by the Health Resources and Services Administration (HRSA), in the form of Provider Relief Funds (PRF). In accepting these funds, many of these entities are subject to audit requirements. HHS audit requirements for for-profit entities are not well understood.

AICPA Guidance

The AICPA Governmental Audit Quality Center (GAQC) recently held an informational webinar and released a nonauthoritative GAQC practice aid: *HHS Audit Requirements for For-Profit Entities with Awards from the Provider Relief Fund Program and Other HHS Programs*. The practice aid includes an FAQ section in two parts:

- Part 1—The HHS For-Profit Audit Requirements
- Part 2—GAGAS Financial Audit Option

The practice aid also includes illustrative schedules and notes, example auditor's reports, a schedule of findings and responses, and a primer on *Government Auditing Standards*.

The HHS for-profit audit requirements include the option for either (a) a single audit (or program-specific audit) under the Uniform Guidance or (b) a financial audit under *Government Auditing Standards* (referred to as a GAGAS financial audit). The GAQC practice aid covers the GAGAS financial audit in detail, as the AICPA believes that it will be the most efficient option for most for-profit entities.

The GAGAS financial audit is not a new concept but has not been widely used because for-profit healthcare entities have not historically received HHS funding at such a significant level. Auditors should note that this option is only available to for-profit entities who have received awards *only* under one or multiple HHS programs. It would not be available if the for-profit entity received awards under multiple federal agencies.

Thomson Reuters Resources

GAGAS financial audits are required to be performed under AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*. In this case, the specified element would be the schedule of HHS awards. Under AU-C 805, the engagement should also comply with the other provisions of generally accepted auditing standards (GAAS). Auditors should apply the same standards that

are applied in financial statement audits. This includes such matters as planning the engagement; identifying and assessing the risk of material misstatement whether due to error or fraud; obtaining an understanding of the internal control (as it relates to the specified element); designing the nature, timing, and extent of further audit procedures; and evaluating passed adjustments. **Chapter 5** of *PPC's Guide to Nontraditional Engagements* covers reporting on specified elements in detail.

Auditors that will be performing these engagements must comply with the requirements of *Government Auditing Standards*, including, but not limited to, professional judgment, competence and continuing education, quality control and assurance, and peer review. Those standards are extensively covered in *PPC's Guide to Audits of Local Governments*, *PPC's Guide to Audits of Nonprofit Organizations*, and *PPC's Guide to Single Audits*. The standards are also addressed in *PPC's Practice Aids for Audits of Healthcare Entities*.

Thomson Reuters understands the dramatic impact these developments have had on our customers. Our editors are studying the GAQC practice aid to determine how we can best advise customers on using our products to address the requirements under the GAGAS financial audit option. We anticipate providing that advice in late April via a posting to our customer support site at https://thomsonreuterstaxsupport.secure.force.com/pkb/pkb_Home?c=Products_Support%3APPc_s_A_A_Products.

Practical Consideration:

Auditors needing immediate assistance are directed to the following sources of information:

- GAQC practice aid: www.aicpa.org/resources/download/auditing-for-profit-entities-with-prf-and-other-hhs-program-funding (free for AICPA members)
- HRSA FAQs: www.hrsa.gov/sites/default/files/hrsa/provider-relief/provider-relief-fund-faq-complete.pdf
- HRSA fact sheets: www.hrsa.gov/provider-relief/reporting-auditing/reporting-resources



Independence Updates

The following independence changes also impact auditors of local governments.

Delayed Services Interpretation

The AICPA's Professional Ethics Executive Committee (PEEC) issued a revised interpretation, *Information System Services* (ET 1.295.145), in June 2019 to address nonattest services relating to attest clients' information systems and networks that can impair independence. The interpretation addresses design and development, implementation (installation, customization, integration, interfaces, data configuration, and translation), and maintenance, support, and monitoring.

The original effective date was January 1, 2021, but, due to the COVID-19 pandemic, was deferred to January 1, 2022. At PEEC's November 2021 meeting, the effective date was delayed an additional year to January 1, 2023, with early implementation allowed. The additional delay is intended to provide time for additional education about the interpretation to address any misunderstandings.

In December 2021, the PEEC's Information System Services Task Force issued a nonauthoritative practice aid, *Independence considerations for information system services*. It was developed to assist practitioners with application of the revised interpretation to ensure they do not violate independence rules when they provide information systems services to their attest clients.

Practical Consideration:

The practice aid is available at <https://us.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/isspracticeaid.pdf>.

Staff Augmentation Interpretation

In March 2021, the PEEC issued an interpretation, *Staff Augmentation Arrangements* (ET 1.275.007) (under the "Current Employment or Association with an Attest Client" subtopic of the Independence Rule), which was effective November 30, 2021.

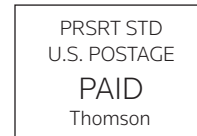
The interpretation states that staff augmentation arrangements will impair independence unless the following safeguards are in place:

- The arrangement is performed because of an unexpected situation that would create significant hardship if the attest client has to make another arrangement.
- The arrangement is not expected to reoccur.
- The arrangement is performed only for a short time (not more than 30 days).
- The augmented staff does not participate in or influence an attest engagement that covers a period including the augmentation arrangement.

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- The augmented staff only performs activities not prohibited under the Independence Rule for Nonattest Services (ET 1.295).
- The member must be satisfied the client’s management designates individuals with suitable SKE (skill, knowledge, and/or experience) to be responsible for the scope, oversight, and adequacy of the augmented staff’s activities and findings.

In conjunction with issuing the *Staff Augmentation Arrangements* interpretation, PEEC also approved revisions to the following interpretations:

- *Agreed-Upon Procedures Engagements Performed in Accordance with SSAEs* (ET 1.297.020), which allows staff augmentation arrangements if the services provided are unrelated to the agreed-upon procedures engagement’s specific subject matter.
- *Client Affiliates* (ET 1.224.010), which permits staff augmentation arrangements with certain affiliates.
- *Scope and Applicability of Nonattest Services* (ET 1.295.010), which refers to the guidance in the new interpretation when such an arrangement exists.

In addition, in September 2021, five new Q&As were added to the AICPA’s *General Ethics Frequently Asked*

Questions (FAQs) to address staff augmentation interpretation implementation questions.

New Hosting Services FAQs

In October 2021, three new Q&As were added to the Nonattest Services FAQs relating to hosting services. These address adding language to engagement letters for attest or nonattest services to clarify that a member’s firm cannot accept responsibility for maintaining attest clients’ data and records and to explain actions a member firm is taking to avoid inadvertently providing hosting services when using a portal to (a) provide attest clients with member-prepared records or member work products or (b) exchange information with attest clients.

Practical Consideration:

The AICPA’s *Nonattest Services* FAQs document is available at <https://us.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf>.

