

THE PPC GOVERNMENTAL UPDATE

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Updated AICPA Audit Guide on Yellow Book and Single Audits



The AICPA recently issued the highly anticipated April 2021 update of its audit guide, *Government Auditing Standards and Single Audits* (GAS/SA Guide), highly anticipated because of its SAS No. 134 guidance. This GAS/SA Guide is for audits performed in accordance with *Government Auditing Standards, 2018 Revision* (Yellow Book), and 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 GAS/SA Guide is considered to be an interpretive publication. Interpretive publications do not establish auditing standards but instead provide recommendations on applying GAAS in specific circumstances. Auditors are required to consider applicable interpretive publications in planning and performing their audits. If the auditing guidance in an applicable interpretive publication is not applied, the auditor should document how the GAAS requirements were complied within the circumstances addressed by the guidance.

Purpose and Applicability

Consistent with previous editions, the GAS/SA Guide is organized into two parts: Part I, which discusses considerations for audits performed under the Yellow Book, and Part II, which discusses single audits and program-specific audits performed under the Uniform Guidance.

The 2021 edition of the GAS/SA Guide fully incorporates SAS Nos. 134–140 and SAS No. 141. Because SAS Nos. 134–140 are effective for years ending on or after December 15, 2021, GAS/SA has fully implemented them. For entities that have not implemented SAS Nos. 134–140, auditors are advised to use the 2020 edition of GAS/SA for the auditing guidance and illustrative auditor reporting in effect before implementing SAS Nos. 134–140.

At the time the AICPA submitted the GAS/SA Guide for publication, the 2021 OMB Compliance Supplement had not yet been issued. Therefore, the information in the GAS/SA Guide is based on the final version of the 2020 Compliance Supplement.

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- Single Audit Program Updates

The OMB released the final 2021 Compliance Supplement in August 2021; it is effective for single audits of fiscal years beginning after June 20, 2020.

Some of the guidance that was considered and included as appropriate in this update includes:

- Statement on Auditing Standards (SAS) No. 143, *Auditing Accounting Estimates and Related Disclosures*.
- Interpretations issued (or reissued) through April 1, 2021.
- The Single Audit Act Amendments of 1996.
- *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- *Government Auditing Standards, 2018 Revision*.
- *2 CFR Frequently Asked Questions* published on May 3, 2021.

Highlights

The most notable features of the 2021 GAS/SA Guide are the inclusion of the long-awaited illustrative reports implementing the reporting SASs, SAS Nos. 134–140, and information and guidance relating to COVID-19 funding. The following list highlights some of the other changes in the GAS/SA Guide:

- Chapter 2 was updated to provide details of the GAO alert related to three continuing professional education exceptions provided by the GAO in light of the COVID-19 pandemic.
- Chapter 4 was updated to reflect the changes made by SAS Nos. 134–140. In addition to new reporting illustrations, updates were made to the basic elements of the auditor's report on the financial statements to reflect the changes in SAS Nos. 134–140.
- The concept of lost revenue applicable to some COVID-19 programs was discussed in Chapters 5, 7, and 12. A link with responses to questions relating to lost revenue was also included in these chapters.
- Several items that may be included in the communication with management when performing an audit under the Uniform Guidance were added in chapter 6. Additionally, several footnotes were added to adapt and apply auditing standards to a Uniform Guidance audit.
- Chapter 8, COVID-19 Considerations section, reminds auditors that all type A programs that were not audited in either of the two most recent audit periods are required to be audited as a major program. Therefore, type A COVID-19 programs must be audited as major programs because they have not been audited in at least one of the two most recent audit periods.
- Chapter 9, COVID-19 Considerations section, suggests that auditors consider internal controls due to

new COVID-19 funding and changes in the control environment, such as employees working remotely, layoffs, and furloughs. Auditors should consider these changes when (1) evaluating the design of controls and determining whether controls have been implemented and (2) testing the operating effectiveness of those controls.

- Chapter 13 was updated to reflect the changes made by SAS Nos. 134–140. In addition to new reporting illustrations, one of the noteworthy changes was made to the basic elements of the auditor's report on compliance and internal control over compliance with the Uniform Guidance to reflect the changes in SAS Nos. 134–140.

Many other changes were made due to the passage of time, to provide clarification, and to address issues relating to the 2020 Compliance Supplement.

Practical Consideration:

The GAS/SA Guide is available from the AICPA at www.aicpastore.com or on Checkpoint at checkpoint.riag.com. *PPC's Guide to Single Audits* has been updated for the 2021 GAS/SA Guide. The 2022 edition of *PPC's Guide to Audits of Local Governments*, available in spring 2022, will also incorporate the changes.



Single Audit Program Updates

Since the OMB Compliance Supplement was issued in August of 2021, there have been several important updates that will affect recipients of COVID-19-related federal funding and auditors that are performing single audits over those programs. Federal agencies continue to release guidance in various formats. Recipients and auditors should be cognizant of the relevant compliance requirements and alert for guidance that continues to be released for various COVID-19-related federal programs.

Provider Relief Fund

The guidance for the U.S. Department of Health and Human Resources (HHS) Provider Relief Fund (PRF) has continued to evolve since it was originally authorized by the CARES Act in March of 2020. The 2021 Compliance Supplement clarified that entities who received and expended (or replaced lost revenue) with PRF,

Assistance Listing No. 93.498, will not include those amounts on the schedule of expenditures of federal awards (SEFA) until June 30, 2021, year ends. Therefore, for entities with fiscal years ending prior to June 30, 2021, PRF will not factor into major program determination and is not subject to single audit in that year. The PRF expenditures and lost revenue amounts will first be reported in SEFA and audited under the Uniform Guidance in a fiscal year ending on or after June 30, 2021. Part 4 of the Compliance Supplement provides specific guidance for amounts to report on the SEFA for entities who receive and expend PRF, by their respective fiscal year ends. Those amounts are directly tied to reporting periods that are associated with the PRF Reporting Portal requirements.

Period 1 reporting was originally due on September 30, 2021. However, HHS has issued a grace period of 60 days, extending the deadline to November 30, 2021. Unused funds must be returned by 30 days after the end of the grace period (December 30, 2021). Auditors should be aware that the 2021 Compliance Supplement indicated that the compliance audit of PRF should not begin until the provider has completed Period 1 reporting. Therefore, this grace period may further extend single audits of PRF. The HHS notice emphasizes that the grace period does not change the period of availability for use of PRF.

HHS has also issued two important documents that address common questions they have received from recipients and auditors of PRF:

- *Independent Audit Requirement (45 CFR 75.501) Fact Sheet*: www.hrsa.gov/sites/default/files/hrsa/provider-relief/independent-audit-requirement-fact-sheet.pdf. This document contains additional information concerning for-profit recipients of PRF funding. Note that the AICPA Government Audit Quality Center (GAQC) is expected to release illustrative schedules and guidance for for-profit entities.
- *Parent-Subsidiary Reporting Fact Sheet*: www.hrsa.gov/sites/default/files/hrsa/provider-relief/prf-parent-subsubsidiary-reporting-fact-sheet.pdf. This document addresses common questions on PRF reporting for consolidated entities.

Practical Consideration:

HHS continues to update their FAQ document on PRF. That document can be accessed at www.hrsa.gov/sites/default/files/hrsa/provider-relief/provider-relief-fund-faq-complete.pdf.

American Rescue Plan Act Programs Listing

The American Rescue Plan Act (ARP) was passed and signed into law in March of 2021. Similar to the previous CARES Act legislation, ARP provides a significant level of funding to governmental entities and includes a wide range of programs, including, but not limited to, nutrition, schools, higher education, childcare, disaster recovery, COVID-19 testing and treatment, mental health, housing assistance, healthcare, and transportation.

Identifying new COVID-19 programs and determining whether they are subject to single audit is critical to determining the dollar amount of federal expenditures to assess the single audit threshold and to effectively determine major programs. To help summarize the COVID-19 funding, the GAQC prepared a nonauthoritative summary of the new COVID-19 programs and whether each one is subject to single audit. The summary also includes links to agency websites for further guidance and some additional notes about what is posted on the <https://sam.gov> website. The AICPA intends to update this summary periodically based on that website and information from federal agencies. Auditors should refer to the date at the top of the summary to be sure they are consulting the latest version. The summary is available at www.aicpa.org/interestareas/governmentalauditquality.html. OMB published a listing of all COVID-19-related programs and their Assistance Listing numbers at www.cfo.gov/wp-content/uploads/2020/06/M-20-21_FAQ_06232020.pdf (published June 24, 2020). This listing includes those programs funded under the CARES Act and other earlier COVID-19 legislation. In addition, the OMB published a listing of all ARP programs and their Assistance Listing numbers at www.cfo.gov/assets/files/Approved_American_Rescue_Plan_Assistance_Listings_9.28.2021.pdf (published September 28, 2021). In both listings, an asterisk by the Assistance Listing number indicates it is a new Assistance Listing number. Note that the GAQC has identified several inconsistencies in the OMB's latest listing where asterisks were placed next to several programs that were not actually

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new. They have requested OMB release an updated listing to make these corrections. Recipients and auditors should be alert for the revised listing from OMB that is expected to be posted on the www.cfo.gov website.

Auditors should also remember that Appendix IV of the 2021 Compliance Supplement designates all new programs under ARP and a number of other COVID-19-related programs as higher risk. Appendix IV reminds auditors that, because ARP was passed in March 2021, in most cases, new ARP programs will not have been audited in either of the two most recent audit periods, and therefore, generally must be audited as a major program.

Other Program Communications

Several other important communications from federal agencies have also recently been released:

- **Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) Reporting Extension:** The U.S. Department of Treasury has sent communications to states concerning revised reporting deadlines for the first CSLFRF Project and Expenditure report. The original deadline was October 31, 2021. Those extensions are as follows:
 - For states, U.S. territories, metropolitan cities and counties, and tribal governments, the report will now be due on January 31, 2022, and will cover the period between the award date and December 31, 2021.
 - For non-entitlement units of government, the report will now be due on April 30, 2022, and will cover the period between the award date and March 31, 2022.

- **Emergency Rural Health Care Grants:** Applications from prospective entities for this program under the U.S. Department of Agriculture (USDA) were due on October 12, 2021. The GAQC has since learned that this funding will be added to the existing Assistance Listing 10.766, *Community Facilities Loans and Grants*. The 2021 Compliance Supplement was not updated to include any new requirements related to this funding. It is unknown if this program will be included in one of the future addenda to the Compliance Supplement. Recipients and auditors of this program should be alert for communications from the USDA, which will likely be posted to the *Emergency Rural Health Care Grants* website at www.rd.usda.gov/erhc.
- **U.S. Department of Education (ED) Financial Responsibility Supplemental Schedule:** On September 30, 2021, the ED issued a *Dear Colleague letter* clarifying that auditors are required to follow and meet the requirements of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, by providing an in-relation-to opinion on the supplemental schedule. Auditors should review the letter in its entirety for other general reminders: <https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2021-09-30/financial-responsibility-supplemental-schedule-audit-requirement>.

Practical Consideration:

The communication from the U.S. Department of Treasury can be accessed at <https://home.treasury.gov/system/files/136/SLFRF-Compliance-and-Reporting-Guidance.pdf>.

