



Single Audit and Government Auditing Standards Update

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Single Audit Update

- ◆ Updated *Government Auditing Standards and Circular A-133 Audits* issued in December 2009
- ◆ OMB updated A-133 for SAS 115 in March 2010
- ◆ AICPA updated its model reports for OMB changes for SAS 115 concurrently

Audit Guide Update

- ◆ **New guidance on audit sampling considerations**
 - Documentation requirements
 - Sample size requirements for
 - Internal control testing
 - Compliance testing

A-133 Definition of Internal Control over Federal Programs

- ◆ **A process – effected by an entity’s management and other personnel – designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:**
 - Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and federal reports
 - Maintain accountability over assets
 - Demonstrate compliance with laws, regulations and other compliance requirements
 - Transactions are executed in compliance with:
 - Laws, regulations and provisions of contracts or grant agreements that could have a direct and material effect on federal program
 - Any other laws and regulations that are identified in the compliance supplement
 - Funds, property and other assets are safeguarded against loss from unauthorized use or disposition

Testing Internal Control over Compliance

- ◆ Auditor must identify each direct and material compliance requirement for each major program
- ◆ For each DM compliance requirement, the auditor must obtain an understanding of the following 5 elements of internal control:
 - Control environment
 - Risk assessment
 - Information and communications
 - Control activities
 - Monitoring

Internal Control Testing

- ◆ **Once understanding of internal control is obtained, auditor must test design and implementation of the control**
 - Inquiry alone is insufficient for design test – there must be more
- ◆ **Part of this consideration must be how IT affects control activities**
- ◆ **RESULTS OF COMPLIANCE TESTS CANNOT SERVE AS BASIS THAT CONTROLS ARE OPERATING EFFECTIVELY – YOU MUST TEST**

Control Risk Assessment

- ◆ If test of design and implementation is satisfactory, must plan tests of operating effectiveness to support a low assessed level of control risk
- ◆ If test of design and implementation is unsatisfactory, auditor must assess control risk at maximum
- ◆ If control risk is assessed at maximum, amount of compliance testing must **INCREASE**

Internal Control Sampling Considerations

- ◆ Frequency of the performance of the control
- ◆ Length of time during the audit period that the auditor is relying on the operating effectiveness of control
- ◆ Relevance and reliability of the audit evidence to be obtained in supporting that the control prevents, or detects and corrects, material noncompliance
- ◆ Extent to which audit evidence is obtained from tests of OTHER controls related to the relevant assertion
- ◆ Extent to which the auditor plans to rely on operating effectiveness of control to reduce substantive procedures over compliance
- ◆ Expected deviation from the control

Internal Control Sample Sizes

- ◆ Assuming no deviations expected and more than 250 items in population

Significance of Control and Inherent Risk of Compliance Requirement	Sample Size
Very significant and higher	60
Very significant and limited	40
Moderately significant and higher	40
Moderately significant and limited	25

Internal Control Sample Sizes

◆ For populations smaller than 250:

Frequency and Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semi-monthly (24)	3-8
Weekly (52)	5-9

◆ For populations between 52 and 250 items, a rule of thumb is 10% of the population

Evaluating Errors

- ◆ **Must set parameters for control test before you start the test**
- ◆ **Beware of determination of an “isolated incident”**
- ◆ **Consideration of fraud in error**
- ◆ **Consideration of abuse in error**
- ◆ **Auditor is not necessarily required to expand testing if an error exists**
 - But you must be able to conclude on low assessed level of control risk if you don't
 - If you can't get to low CR – generally you must report at least an SD

Compliance Tests

- ◆ Remember relationship between internal control test and compliance tests (assumes no deviations)

Desired Level of Assurance	Sample Size
High	60
Moderate	40
Low	25

Other Major Proposed Changes

◆ Subrecipient monitoring

- Grantee that passes monies through to subrecipient must verify whether subrecipient has filed data collection form
- <http://harvester.census.gov/FAC>

◆ Section 1512 guidance will come out later

◆ Check OMB website frequently for new guidance and updates