



# Peer Review – Single Audit Quality Factors

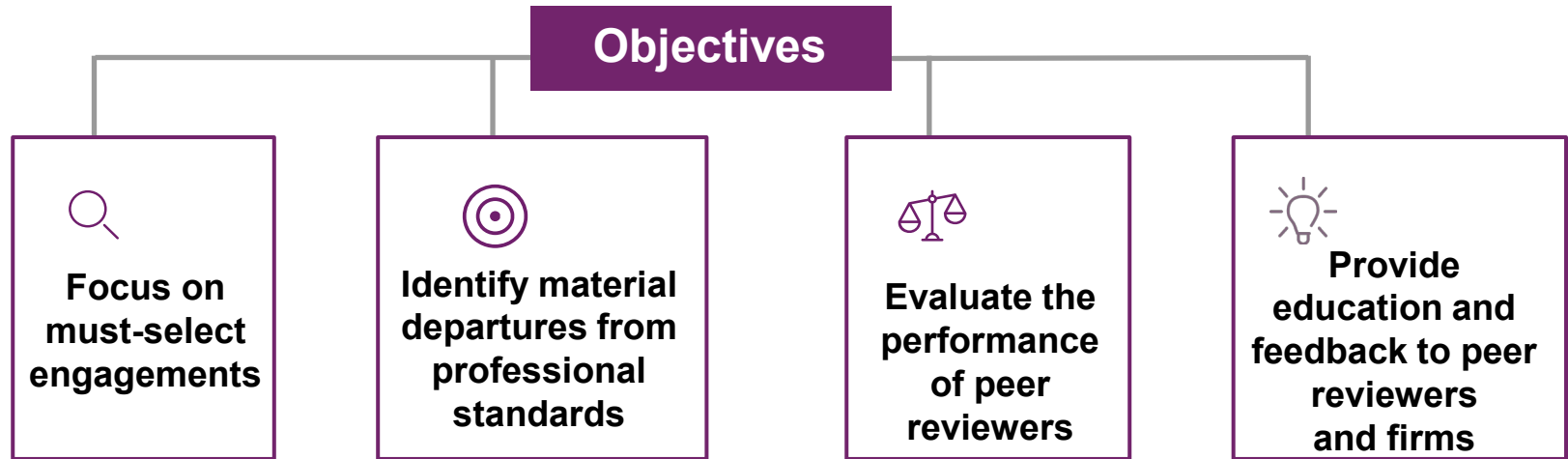
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# What We Will Cover

- Overview of the 2016 Peer Review Program (PRP) study of single audits
- Factors that correlated to quality
- Common misconceptions and areas of non-conformity
- Next steps in strengthening single audit quality

# Overview of the 2016 Peer Review Study of Single Audits

# AICPA Peer Review Enhanced Oversight Program



# About the PRP Study

- Population of audits
  - 1,100 single audits subject to peer review
  - Year-ends of 11/30/15 or prior
- Sample
  - 87 randomly selected single audits (performed under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*)
- Methodology
  - Firm completed questionnaire addressing 37 quality factors
  - Subject matter experts reviewed engagement
  - AICPA assessed correlation between factors and conformity

# Factors Collected for Each Engagement

- GAQC membership
- Experience and education
  - Firm
  - Engagement partner
  - Senior staff
- Engagement Quality Control Review (EQCR)
- Internal inspection results
- Engagement specifics
- General Quality Control

## Overall Results

- **48% non-conformity rate overall**
- Virtually all firms (81+ out of 87):
  - Performed single audits before year under review
  - Did not identify a non-conforming engagement or systemic issues in their most recent internal inspection
  - Did not engage a knowledgeable third party to serve on any engagement team (single audit or otherwise)
  - Did not disengage from any audit or attest clients
  - Did not have staff holding either an intermediate or advanced AICPA Single Audit Certificate

# Factors that Correlated to Quality



## Results: Single Audit Practice Size

# of single audits performed annually	Non-conformity %
1	62%
2 to 10	49%
11 or more	15%

## Results: GAQC Membership

GAQC members?	Non-conformity %
Yes	32%
No	58%



**GAQC members who performed 11 or more single audits annually**



## Results: Engagement Partner Competency

# of single audits performed by partner annually	Non-conformity %
1	68%
2 to 10	44%
11 or more	25%

- Non-conformity spiked when engagement partner had:
  - < 6 years of experience
  - < 9 hours of single audit CPE in previous 3 years
  - A history of performing non-conforming engagements

# Raising Awareness

An [infographic was issued](#) depicting the following:

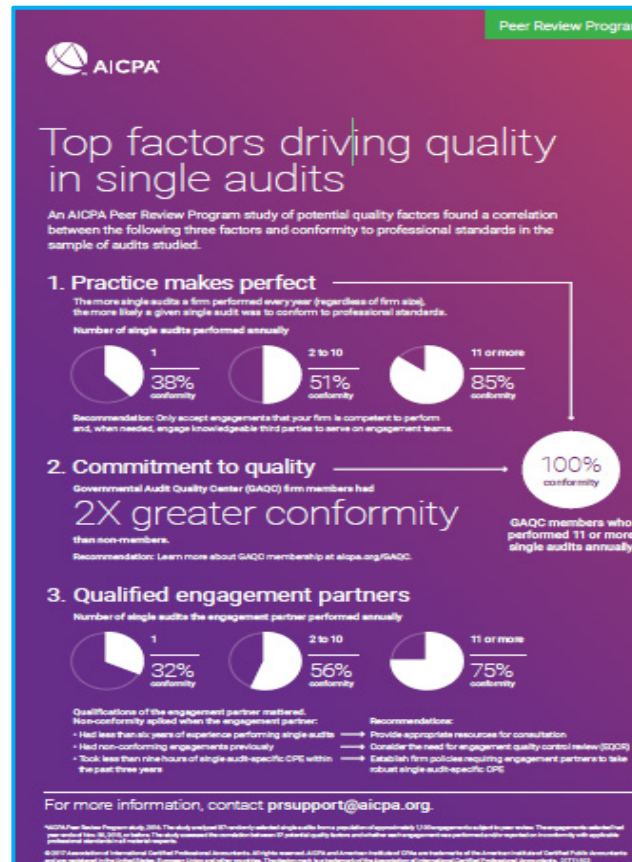
- Factors that led to higher quality
- Next steps firms can take to enhance quality

A *Journal of Accountancy* article titled, [Tactics for Driving Quality in a Single Audit](#)

Outreach to all auditors and auditees in FAC

[AICPA webcast](#) addressing results

[GAQC Alert #340](#)



## Next Steps

- Model RFP and proposal evaluation tool
- Mandatory Peer Reviewer education
- Concepts inform future GAQC webcasts
- Raise awareness
  - Agencies
  - OIGs
  - Auditor and auditee follow-ups

# Common Misconceptions and Areas of Non-Conformity

# Analyzing Oversight Results

- What AICPA PRP did
  - Reviewed detailed reports from oversights of non-conforming engagements
  - Identified common areas of non-conformity and examples of why it occurred
- What was found: common problem areas
  - Identifying direct and material compliance requirements
  - Control testing (planning and performance)
  - Compliance testing (planning and performance)
  - No other “common” issues but various other problems noted

## Most Common Problems Noted: Identifying Direct and Material Compliance Requirements and Assessing Risk

Description	# of engagements
Indicated an applicable compliance requirement was not direct and material, but didn't document rationale	8
No evidence in the file that the auditor considered which compliance requirements were direct and material	6
Missed compliance requirements by using out-of-date <i>Compliance Supplement</i>	4



# Determining Direct and Material Compliance Requirements

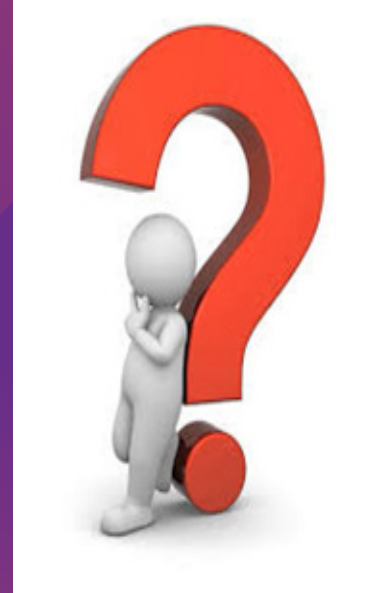
- Obtain an understanding of each major program
  - Discuss program with appropriate members of management
  - Review contracts and grant documents
    - Determine key elements (e.g., amount, timing, applicable compliance requirements, indirect cost considerations, regulations, etc.)
  - Look at expenditure patterns (e.g., wages, benefits, equipment, etc.)

## A Note About Part 2 and Applicability

- “Y” may appear in matrix, even though a requirement may not apply to a particular entity
  - Entity may not have activity subject to the compliance requirement; or
  - Activity could not have a material effect on major program
- Auditor should exercise professional judgment when determining which compliance requirements marked with a “Y” need to be tested at a particular entity
- **Documentation is key if overriding a “Y”**

# Applicable Versus Direct and Material Requirements

I am auditing program XX.XXX. The Part 2 matrix indicates that 6 types of compliance requirements apply. After evaluating those requirements, I have concluded that only 4 of the requirements are direct and material for my client. How much audit documentation do I need to prepare regarding this analysis?



# Applicable Versus Direct and Material Requirements

Quick Answer: N/A is not enough! Keep in mind that AU-C 230, *Audit Documentation*, and *Government Auditing Standards* (also referred to as the Yellow Book) require documentation that would allow an experienced auditor with no previous connection to the audit, to understand your rationale.

*Example Documentation: While the Part 2 Matrix identifies Procurement as being applicable to CFDA No. XX.XXX, Client ABC made only one small purchase during the year that is immaterial overall to the program expenditures. Therefore, the procurement type of compliance requirement for CFDA No, XX.XXX is not direct and material to Client ABC.*



## Most Common Problems Noted: Control Testing

Description	# of engagements
Insufficient evidence in file that the firm tested controls around each major program's direct and material compliance requirements	25
Failed to document understanding of controls for each major program's direct and material compliance requirements	22
No evidence that the firm tested controls over compliance at all	12

# Control Testing: Examples of Problems Found in Planning

- Thought it was OK to combine internal control assessments for all major programs
- Could orally explain their understanding of internal control but did not document it
- Used a generic questionnaire that was not tailored to the client
- Thought a walkthrough of internal controls over financial reporting was sufficient
- Relied on controls at the grantor to eliminate the need for control testing
- Relied heavily on audit programs without understanding the steps they were signing off on

# Control Testing: Examples of Problems Found in Performance

- “Powerticked” generic audit programs, signing off on procedures where there was no indication work was performed
- Thought no testing of controls was OK when “100% of disbursements were tested”
- Did not test controls over compliance because asserted that “federal awards follow the same internal control system as non-federal awards”
- Did not test controls thinking such tests are required every three years
- Did not test controls because they assessed control risk at “high”

# Uniform Guidance – Internal Control Responsibility – Auditors (§200.514(c)(2))

- Auditors must:
  - Perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs.
  - Plan testing of internal control over the relevant compliance requirements for each major program
  - Perform testing of internal control as planned
  - Report on internal control over compliance



## Most Common Problems Found: Compliance Testing

Description	# of engagements
Insufficient evidence that the firm tested each major program's direct and material compliance requirements	17
Insufficient documentation of the sufficiency of the sample and/or how it was selected	8
No evidence that the firm tested compliance at all	4
Performed financial statement audit procedures (e.g., traced invoices to general ledger) in lieu of compliance audit procedures	4

# Compliance Testing: Examples of Problems Found in Planning

- Performed common financial reporting tests instead of compliance tests
- Misunderstood the meaning and purpose of dual-purpose testing
- Believed “vouching” reimbursements was sufficient testing of direct and material compliance requirements
- Thought cash management was not applicable because “funds were received only after they were incurred”
- Considered allowability of expenditures not applicable because “funds were used to offset charges to low-income individuals”

## Other Problems Noted in the PRP Study

- Type A/B determinations
- Risk assessments to identify major programs
- Low-risk auditee determinations
- Subsequent events
- Documentation of known and likely questioned costs
- Evaluation and disposition of internal control exceptions and compliance exceptions
- Reporting in Schedule of Findings and Questioned Costs (SFQC)
- Reporting on the Schedule of Expenditures of Federal Awards (SEFA)

## No. 1 issue — *lack of documentation*

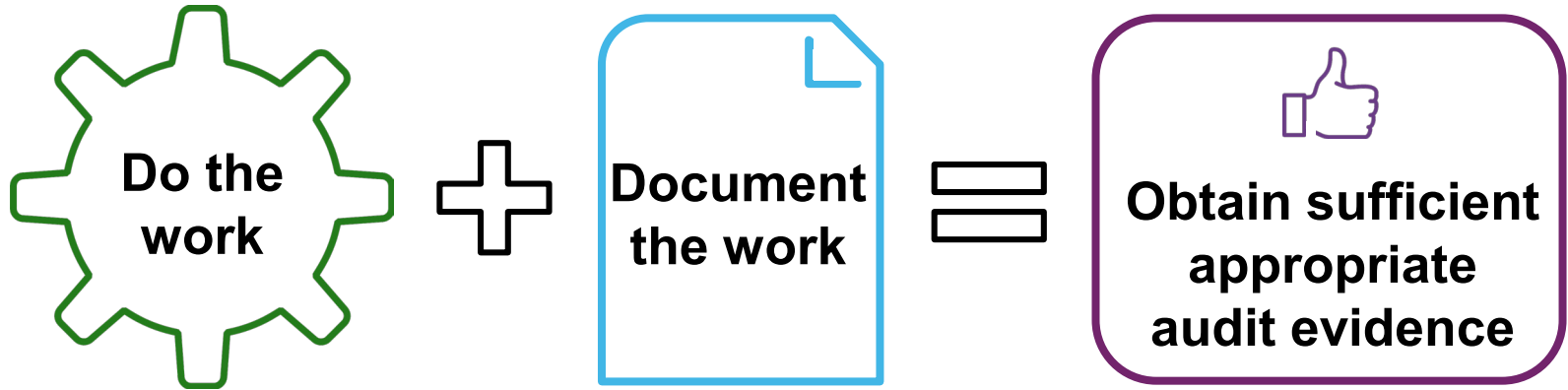
- **One out of every four** engagements is non-conforming because of poor documentation
- Examples include no documentation of
  - Materiality levels and basis for how determined
  - Major program determination – including individual program risk assessments
  - Understanding and testing of I/C over compliance
  - Compliance testing and support for sampling used



# Common Misconceptions

- Believed they could meet their overall audit objectives without documenting their work
- Believed a sign-off on an audit program is sufficient documentation of a detail test
- Believed oral explanation can substitute for written documentation to meet the requirements of AU-C 230

# Obtain sufficient appropriate audit evidence



## What documentation is required (AU-C 230.08)?

Experienced auditor with no connection to the audit should understand:

- Nature, timing and extent of procedures performed
- Results and evidence obtained
- Significant findings, issues and professional judgments

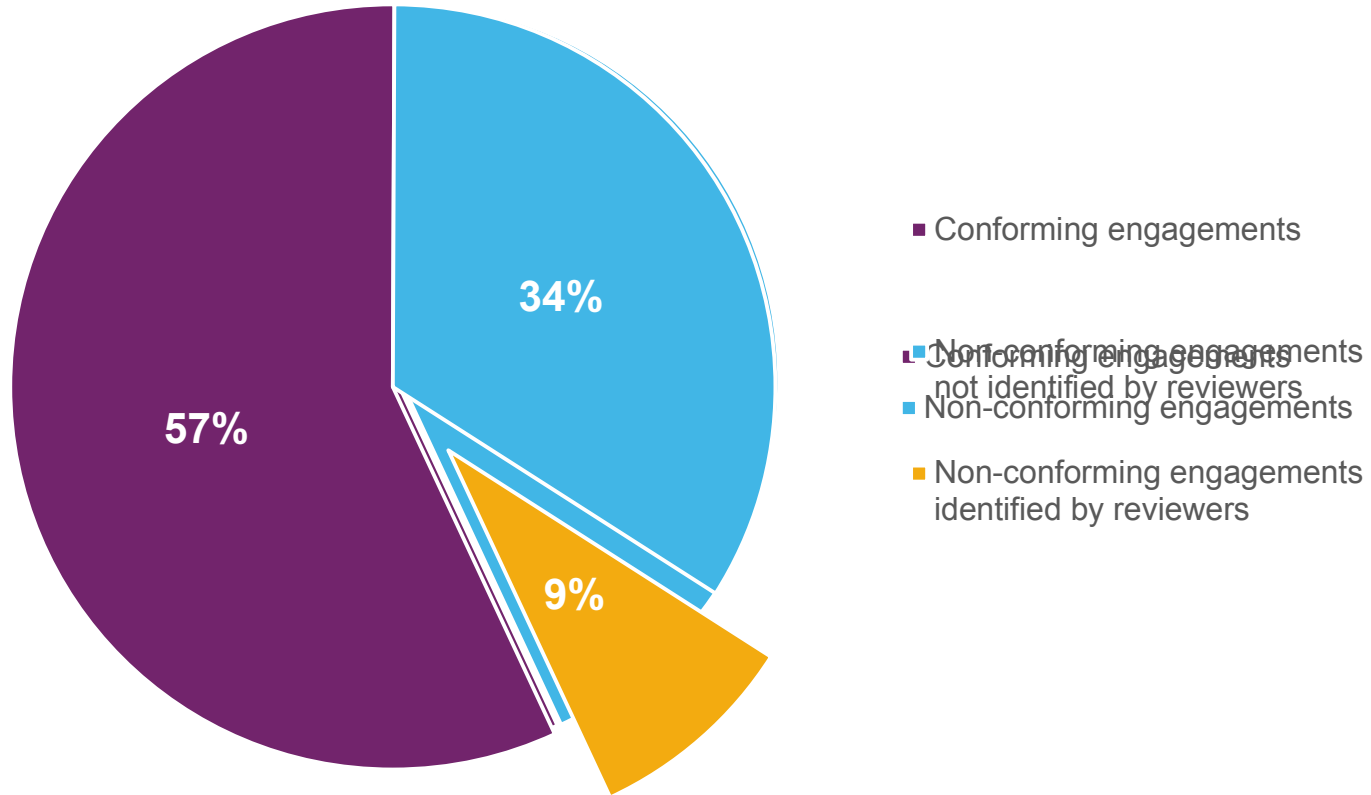
Applies to **any procedure** that provides audit evidence necessary to support the opinion



# Next Steps in Strengthening Single Audit Quality



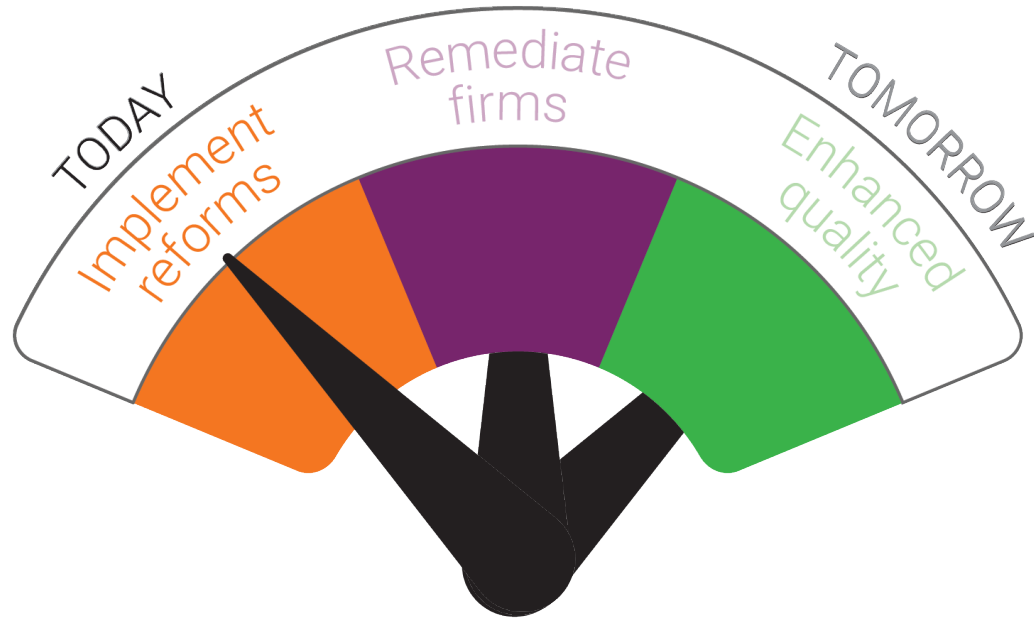
# Enhanced Oversight Program: 2015 results (year one)



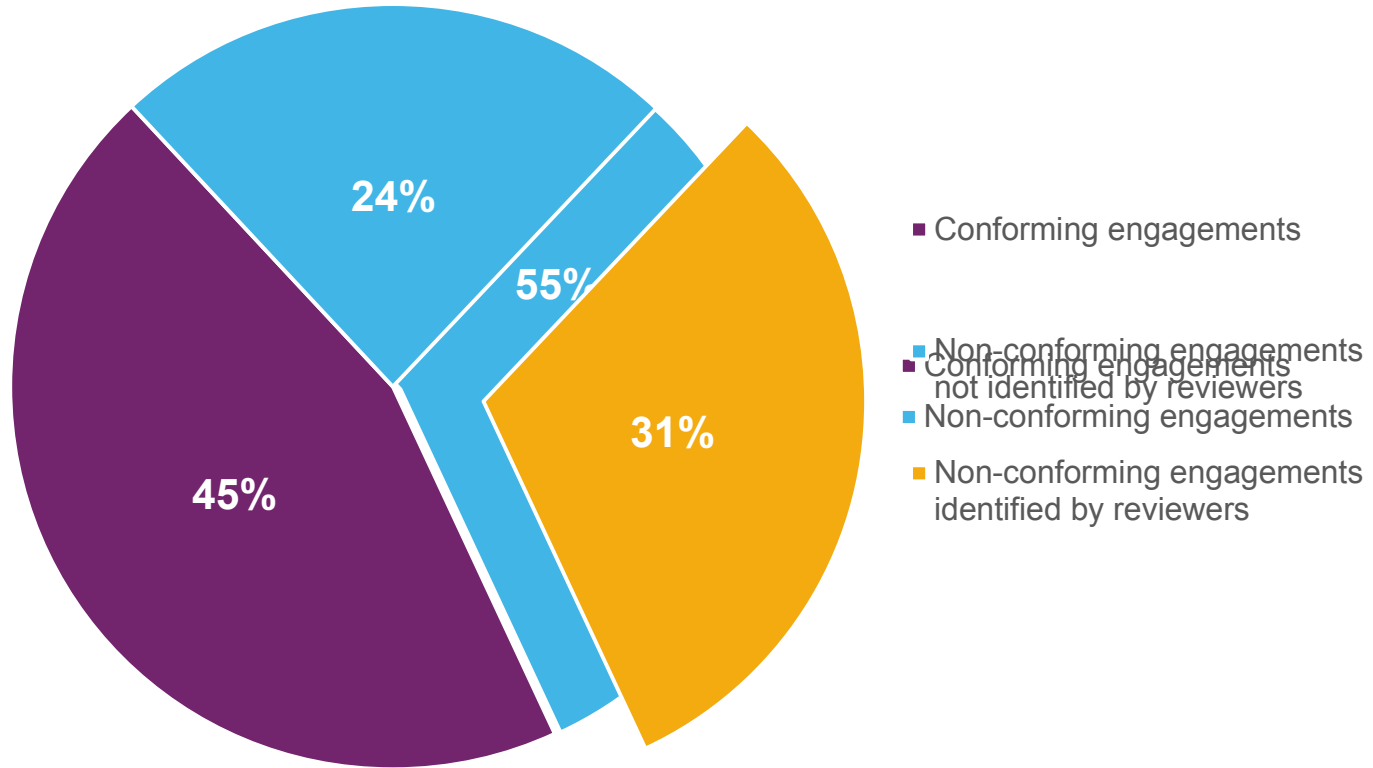
## First step: improving detection of non-conformity

- Improve peer reviewer quality
  - Enhanced Oversight
  - Training
  - Remediation/removal
- Confirm population completeness

# Moving the quality needle



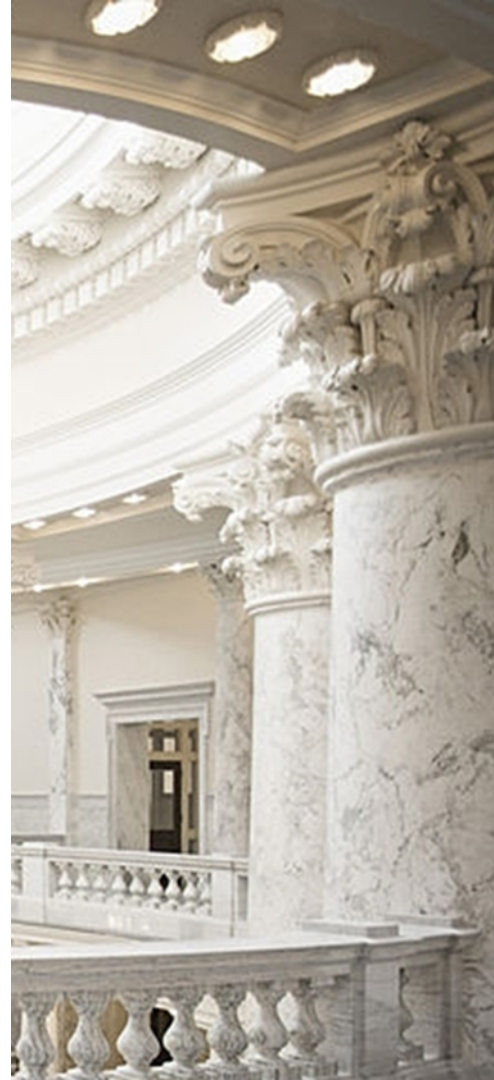
# Enhanced Oversight Program: 2016 results (year two)





## Single audits: actions taken

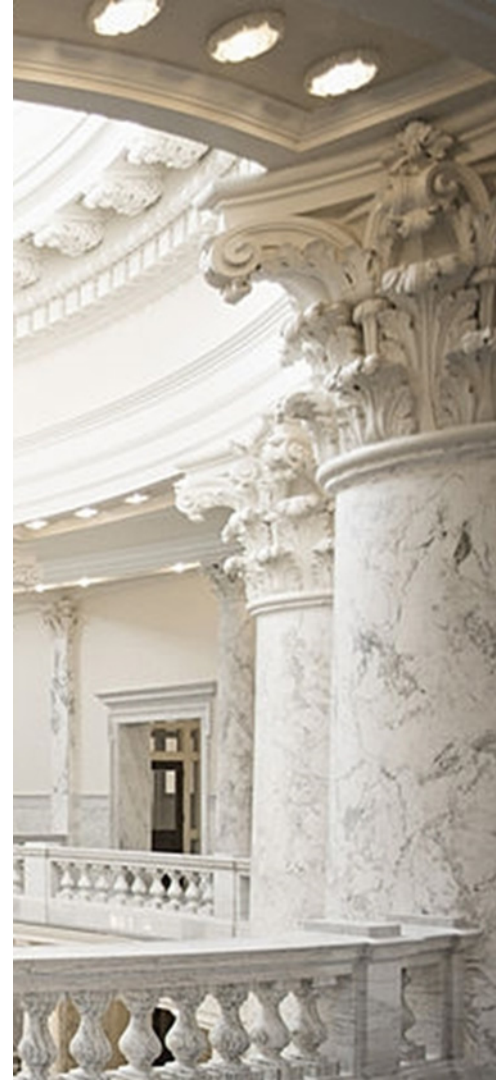
- Communications to state societies and auditors and auditees in the FAC
- GAQC established task force to focus on internal control
- Resources and tools
  - Free single audit resources available at [aicpa.org/EAQ](http://aicpa.org/EAQ)
  - Free tools for single auditees at [aicpa.org/auditeeresources](http://aicpa.org/auditeeresources)
- Reinforcement in Peer Review





## Single audits: next steps

- Raise awareness
  - Communications through various channels
  - Conference presentations
- Develop resources
  - Common controls entities have around each compliance requirement
  - Practice aid to assist with testing of controls
- New course on internal controls over compliance





## Documentation: actions taken

- Communication campaign
- Free tools at [aicpa.org/documentation](https://aicpa.org/documentation), including:
  - Model working papers
  - Training programs for staff
  - Internal inspection aid
  - Nano-learning segment
- Webcasts
- Peer reviewer education





## Documentation: next steps

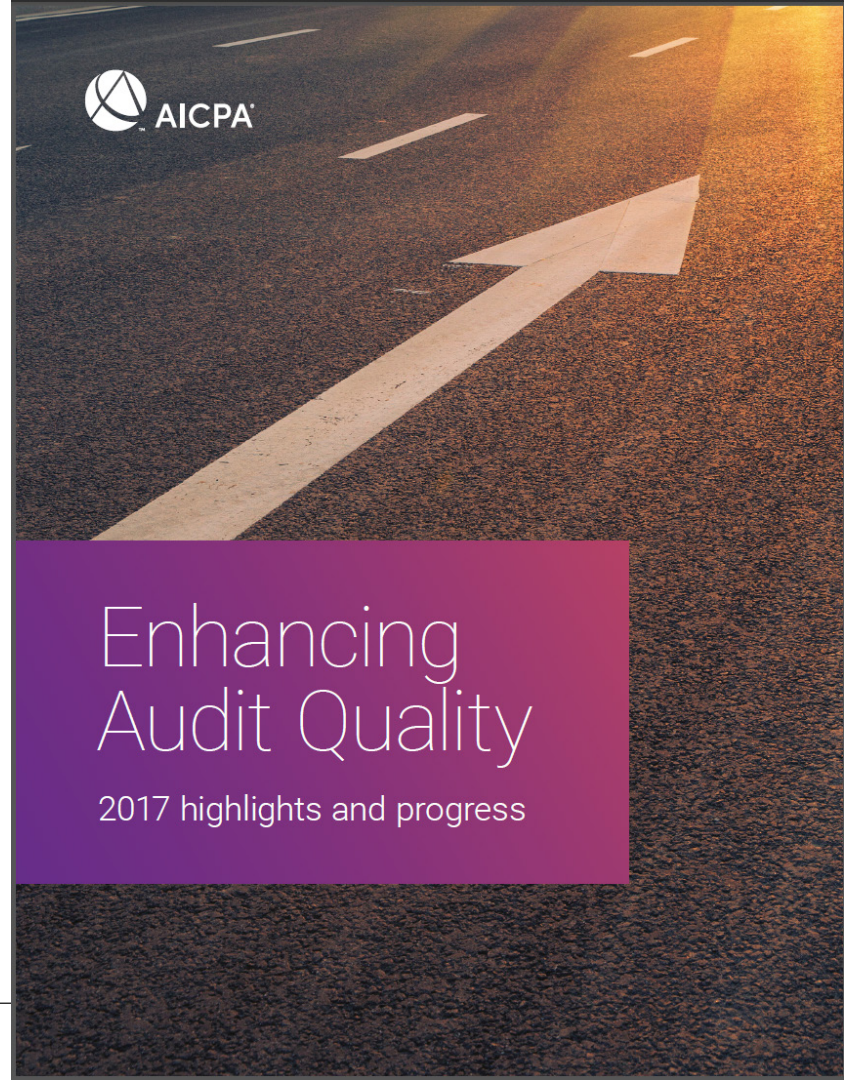
- Raise awareness
  - Communications through various channels
  - Conference presentations
- Develop resources
  - Support efficient documentation that complies with AU-C 230
- Updated courses addressing misconceptions





## Highlights and Progress

- Demonstrate progress toward greater audit quality
- Details the past year's activities and accomplishments
- [www.aicpa.org/EAQHighlights](http://www.aicpa.org/EAQHighlights)



Enhancing  
Audit Quality

2017 highlights and progress

# Questions?



Thank you