

Understanding What's Next for SAS No. 145 and the 2022 Compliance Supplement

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Additional Information

Learning Objective To provide attendees with a better understanding of SAS No. 145 and the 2022 Compliance Supplement.	Instructional Delivery Methods Group Internet-based
Recommended CPE 1.0 CPE Credit	Recommended Fields of Study Audit
Prerequisites None required	Advance Preparation None
Program Level Basic	Course Registration Requirements None
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Presenters

Meet the Instructors



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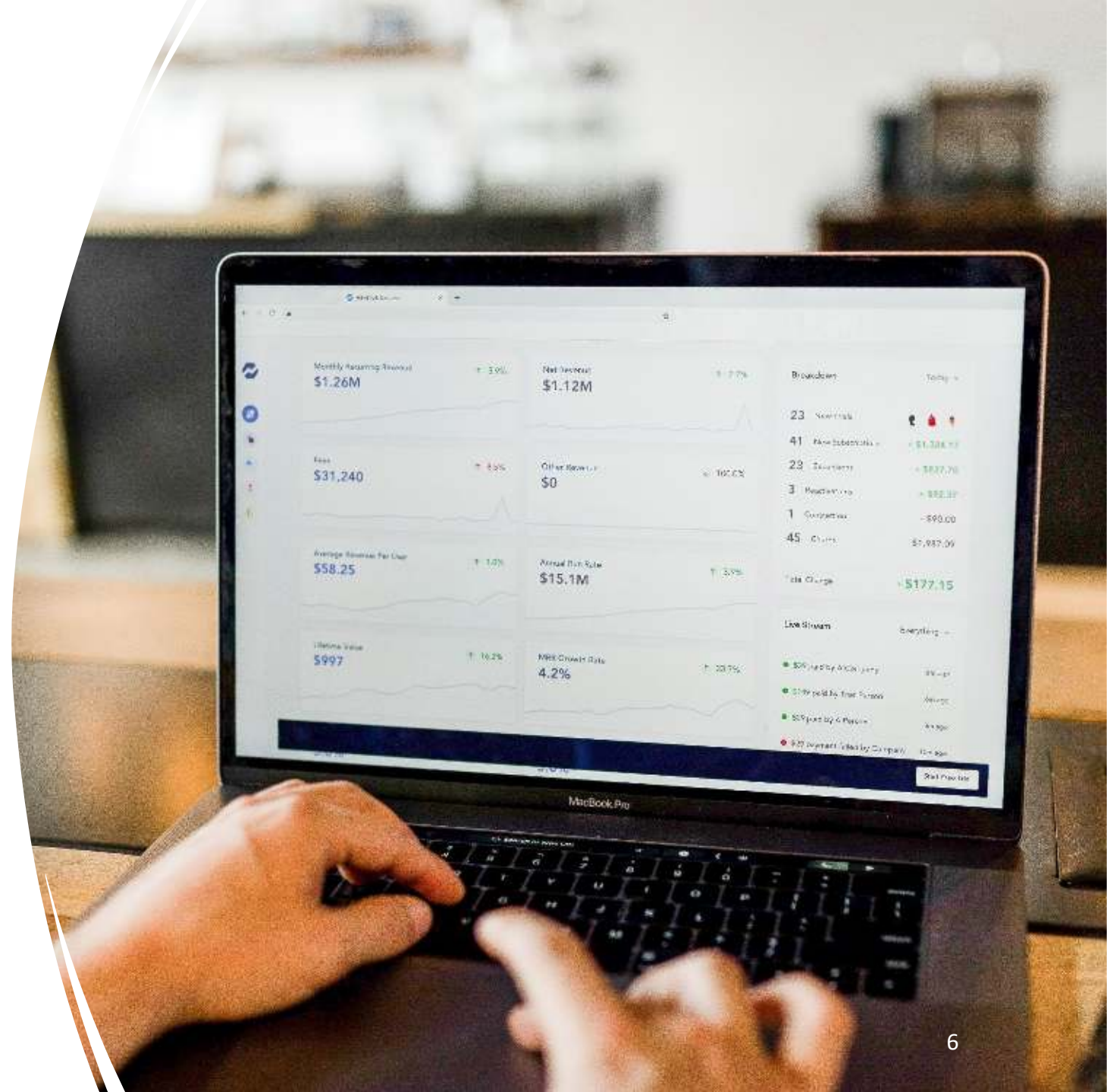
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SAS No. 145 Introduction

- Statement on Auditing Standards (SAS) No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- Supersede SAS No. 122
- Issued October 2021
- The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2023



SAS No. 145 Objective

- Requirements and guidance related to the auditor's risk assessment obtaining an understanding of the entity's system of internal control and assessing control risk
- Guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate
- SAS No. 145 does not fundamentally change the key concepts underpinning audit risk, which is a function of the risks of material misstatement and detection risk. Rather, SAS No. 145 clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality.



Reasons for Update?

- **Common Audit Deficiencies:**

- Deficiencies in the auditor's risk assessment procedures is a common issue identified by practice monitoring programs in the United States and worldwide

- **International Convergence:**

- SAS No. 145 was developed using ISA 315, *Identifying and Assessing the Risks of Material Misstatement*

- **Modernization for an Evolving Business Environment**



Points of Discussion

- Revised requirements to evaluate the design of internal controls
- New requirement to separately assess inherent risk and control risk
- New requirements for assessment inherent and control risk
- Revised definition of significant risk
- New guidance on scalability
- New guidance on maintaining professional skepticism
- A new “stand-back” requirement
- Revised requirements relating to audit documentation



Revised requirements to evaluate the design of certain controls

- SAS No. 145 clarifies that the overall understanding of the entity's system of internal control is achieved through understanding, and evaluating certain aspects of, each of the following components of the system of internal control:
 - The control environment
 - The entity's risk assessment process
 - The entity's process to monitor the system of internal control
 - The information system and communication
 - Control activities

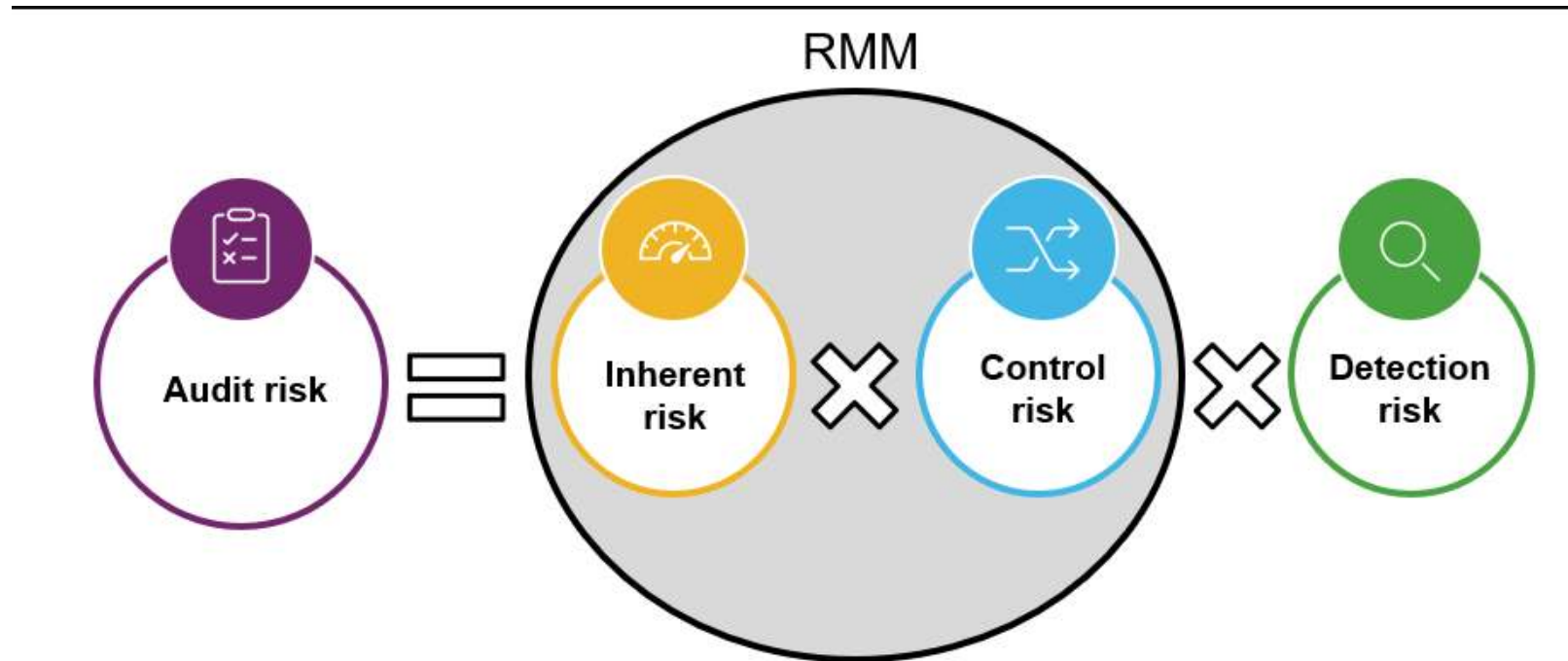


Revised requirements to evaluate the design of certain controls cont.



- Revised terminology used to describe aspects of an entity’s internal controls
- The term *internal control* has been changed to *system of internal control*, and the definition has been updated to reflect that it comprises five interrelated components.
- The use of the term *controls* has been clarified and defined as: “Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context

New requirement to separately assess inherent risk and control risk



For risks of material misstatement at the assertion level, SAS No. 145 now requires separate assessments of inherent risk and control risk, which is consistent with SAS No. 143, Auditing Accounting Estimates and Related Disclosures.

New Requirements for Assessment of Control Risk

- New requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk
- When the auditor does not plan to test the operating effectiveness of identified controls, the auditor's evaluation of the design and determination of the implementation of controls may still assist in the design of substantive procedures. When identified controls are designed effectively and implemented, risk assessment procedures may influence the auditor's determination of the nature and timing of substantive procedures to be performed (for example, the auditor may determine to perform inspection, rather than external confirmation, or to perform procedures at an interim date, rather than at period end).

Polling Question #1

SAS 145 has a new requirement for the assessment of the risk of material misstatement (“RMM”) to be the same as the assessment of inherent risk (“IR”). In your opinion, will this change be beneficial for audit efficiency?

- A. *Yes*
- B. *No*
- C. *Unsure*

Revised Definition of Significant Risk

- Identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur
- The prior significant risk definition focused on the response to the risk, not the risk itself. That guidance said it was a risk that needed special audit consideration



New Guidance on Scalability

- Complexity of an entity's activities and its environment, including its system of internal control, is the primary driver of scalability
- SAS No. 145 recognizes that, although the size of an entity may be an indicator of its complexity, some smaller entities may be complex, and some larger entities may be less complex
- Some aspects of the entity's system of internal control may be less formalized but still present and functioning



New Guidance on Maintaining Professional Skepticism

- Clarifying that an appropriate understanding of the entity and its environment, and the applicable financial reporting framework, provides a foundation for being able to maintain professional skepticism throughout the audit
- Benefits of the Engagement Team Discussion
- Highlighting that contradictory evidence may be obtained as part of the auditor's risk assessment procedures.



Revised requirements relating to audit documentation

- SAS No. 145 also revises the audit documentation requirements to include the following new requirements:
 - Documentation of the evaluation of the design of identified controls and determination of whether such controls have been implemented
 - The rationale for significant judgments made regarding the identified and assessed risks of material misstatement
- Audit documentation is sufficient to enable an experienced auditor having no previous experience with the audit to understand the nature, timing, and extent of the risk assessment procedures performed and the results of those procedures.



Polling Question #2

Does your organization have a detailed Information Security Policy covering all Information Technology General Controls (ITGC)?

- A. *Yes*
- B. *Certain controls are documented but not all*
- C. *No*
- D. *Unsure*

SAS 145 and Information Technology

What does this mean for the audit?

SAS 145 Information Technology Reference:

[SAS 145 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement](#) Paragraphs A6-A8 (Pages 32-33); Appendix E (Pages 121-128) for information over SAS 145 which becomes effective for fiscal years ended after December 15, 2023.

High-Level Summary

- Guidance does not require a particular framework but references *COSO 2013 Internal Control - Integrated Framework*
- Auditors will be placing increased emphasis on Information Technology environment as part of the external audit process
- Detailed testing of Information Technology controls may be required depending on organization's size/complexity
- Review of Information Technology General Control documentation (i.e., Information Security Policy)

Cybersecurity Best Practices

Overview

- Formalized Policies and Procedures
 - Access controls (physical and logical)
 - Backup/storage/retention
 - Incident Response
 - Third-Party Risk Management
 - Privacy
 - Business Continuity and Disaster Recovery
 - Cyber Insurance
- Annual cybersecurity assessment
- Training
 - Onboarding and annual refresher at a minimum
 - Ongoing phishing simulations if feasible



2022 Compliance Supplement – General Information and Effective Dates

- 2022 Compliance Supplement issued on May 11, 2022
- Effective for audits of fiscal years beginning after June 30, 2021
- Guidance for auditors and insights for auditees
- Key Topics and Changes
 - Covid-19 Funding Implications
 - Updates to Matrix of Compliance Requirements
 - Other Audit Advisories – Appendix VII
 - Other Single Audit Topics



Covid-19 Funding Implications

Definition of Covid-19 Funding

- “Covid-19 Funding” refers to programs funded by the following legislation:
 - Coronavirus Preparedness and Response Supplemental Appropriations Act
 - Families First Coronavirus Response Act
 - Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
 - Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
 - American Rescue Plan Act (ARP Act)
- Covid-19 funding may be incorporated into existing programs / Assistance Listing numbers or funding may be under new Assistance Listing numbers
- Federal agencies are required to specifically identify Covid-19 related awards
- Published lists of individual Assistance Listing numbers with Covid-19 funding available – links in Appendix VII

Covid-19 Funding Implications

Programs With “Higher Risk” Designation

- Programs with Covid-19 Funding designated as “Higher Risk” in 2021 Compliance Supplement
 - Continues with the 2022 Compliance Supplement

Agency	Assistance Listing (CFDA) Number	Title
Education*	84.425	Education Stabilization Fund
FCC*	32.009	Emergency Connectivity Fund Program
HHS*	93.461	Testing for the Uninsured
HHS*	93.498	Provider Relief Fund
HHS**	93.778/93.777/93.775	Medicaid Cluster
Transportation**	20.106	Airport Improvement Program
Transportation**	20.500/20.507/20.525/20.526	Federal Transit Cluster
Transportation**	20.315	National Railroad Passenger Corporation Grants
Treasury*	21.023	Emergency Rental Assistance
Treasury*	21.027	Coronavirus State and Local Fiscal Recovery Funds

- * Programs created by Covid-19 legislation – considered to be 100% COVID-19 Funding
- ** Existing programs that received additional funding from COVID-19 legislation

COVID-19 Funding Implications

Programs With “Higher Risk” Designation - Continued

- “Higher risk” designation will often result in Type A programs or other cluster being audited as a major program
- Auditor is not precluded from determining that a “higher risk” Type A program or other cluster qualifies as a low risk Type A if both of the following criteria are met:
 - The program otherwise meets the criteria for a low risk Type A program in section 200.518 of the Uniform Guidance
 - The percentage of COVID-19 funding in the program or cluster during the fiscal year is not material to the program or cluster as a whole
- 100% COVID-19 Funding programs automatically qualify as high risk Type A – must be audited as major
- Inclusion of COVID-19 Funding within a Research and Development Cluster does not create a “high risk” designation for the R&D cluster
- Risk assessments for Type B programs not affected

Part 2 - Matrix of Compliance Requirements

Updates and Reminders

- The Matrix of Compliance Requirements identifies the federal programs and compliance requirements addressed in the Supplement and associates the programs with the applicable compliance requirements
- Identifies compliance requirements that the federal government has determined are subject to audit for programs included in the Supplement
 - Changes are identified with yellow highlights
 - New programs are identified
 - 7 programs had changes
- Only audit requirements that have a direct and material effect on the major program
- Auditors are not prohibited from expanding audit procedures to compliance requirements marked “N” if the terms of the award document specific the compliance requirement is material to the administration of the program
- Reminder – since 2019, federal agencies can only specify 6 compliance areas as subject to audit

Part 3 – Compliance Requirements

Updates and Reminders

- Minimal Changes for 2022
- Part 3 L, Reporting
 - Include review for performance reporting for 63 programs (vs. 57 in the 2021 Compliance Supplement)
 - OMB intends to work with federal awarding agencies to identify performance reporting requirements for more programs
 - May require audits to review documentation to support validation of performance reporting
 - Ultimately OMB would like auditors to conduct more performance audits as opposed to compliance audits
 - Performance and special reporting provisions added in prior year are continued
 - Testing only required for data/key line items that are quantifiable and capable of evaluation against objective criteria
 - If no key line items, only test for timely submission
 - Should document conclusions regarding determination of requirement to perform testwork

Appendix VII – Other Audit Advisories

Updates and Reminders

- Additional COVID-19 Considerations
 - Donated Personal Protective Equipment (PPE)
 - PPE purchased with federal funds were donated to various entities without any compliance or reporting requirements or Assistance Listing information – when that is the case, the following apply
 - Non-federal entities that received donated PPE should provide fair market value of the PPE at time of receipt as a stand-alone footnote accompanying the SEFA
 - Does not count towards major program determination and not required to be audited
 - Agency Guidance Document References for COVID-19 Programs
 - Refer to agency guidance documents to gain understanding of programs, but include reference to statute, regulation or term and condition as criteria for audit findings

Appendix VII – Other Audit Advisories

Updates and Reminders

- Identification of COVID-19 Related Awards on the SEFA and Data Collection Form
 - Recipients and subrecipients must separately identify COVID-19 expenditures on the SEFA and DCF
 - SEFA - Report on a separate line by Assistance Listing number with “COVID-19” as a prefix to the program name
 - o COVID-19 – Temporary Assistance for Needy Families – 93.558 – \$1,000,000
 - o Temporary Assistance for Needy Families – 93.558 – \$3,000,000
 - o Total – Temporary Assistance for Needy Families – 93.558 – \$4,000,000
 - DCF – Report on a separate row by Assistance Listing number with “COVID-19” as the first characters in Part II, Item 1c

	a	b	c	d	e	f	g	h
	Assistance Listing #	Assistance Listing #						
Row Number (auto-generated)	Federal Awarding Agency Prefix	Assistance Listing Three-Digit Extension	Additional Award Identification	Federal Program Name	Amount Expended	Cluster Name	Federal Program Total (auto-generated)	Cluster Total (auto-generated)
					(\$)		(\$)	(\$)
1	93	558		TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$3,000,000.00		\$4,000,000.00	
2	93	558	COVID-19	COVID-19 - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	\$1,000,000.00		\$4,000,000.00	
				Total Federal Awards Expended =	\$4,000,000.00			

Appendix VII – Other Audit Advisories

Updates and Reminders

- Identification of Compliance Requirements for COVID 19 Related Awards and Responsibilities for Informing Subrecipients
 - Federal awarding agencies responsible for identify COVID-19 related awards and communicating requirements to recipient
 - Pass-through entities responsible for identifying COVID-19 awards and communicating requirements to subrecipients
 - Compliance requirements may have been communicated through an agency website
 - *May have been modified or new requirements added*
 - Information furnished to subrecipients should distinguish subawards of incremental COVID-19 funds from regular subawards

Appendix VII – Other Audit Advisories

Updates and Reminders

- Alternative Compliance Examination Engagement for Eligible SLFRF Recipients
 - Applies to SLFRF recipients that would otherwise not be required to undergo a Single Audit, except for expenditures of the SLFRF funds
 - OMB authorizes use of an alternative compliance examination in place of a full single audit or program specific audit
 - Detail in Part 4 – Section IV “Other Information” of assistance listing 21.027
 - Goal to reduce burden of Single or Program-Specific Audit on eligible recipients and practitioners
- Effect of Changes to Compliance Requirements and Other Clusters
 - If a compliance requirement from prior year is no longer applicable, still need to perform procedures if prior year finding related to the requirement
 - Considerations for new programs added to an “other cluster”

Appendix VII – Other Audit Advisories

Updates and Reminders

- Status of Single Audit Submission Extensions
 - OMB has stated that there will be no additional single audit submission extensions
 - 6/30/2021 year-ends are the last to have a 6-month extensions
 - 6/30/2021 audits are due by 9/30/2022
 - 9/30/2021 audits are due by 6/30/2022
 - 12/31/2021 audits are due by 9/30/2022

Other Considerations

- COVID 19 funding has led to increased usage of AU-C 805, Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement
- Enhanced focus on findings write-ups
 - More findings are expected due to new requires and new/less experienced auditees
 - More oversight from federal agencies to be expected
- Addressing discrepancies in FAC submissions
 - Federal agencies have observed cases of amounts in SEFA not matching to information in the DCF
 - Firms Quality control procedures to address:
 - DCF matches with SEFA, audit documentation an reports
 - DCF identifies major programs audited
 - Required SEFA elements properly identified on DCF
 - Individuals assigned to review DCF should have appropriate knowledge and experience

Polling Question #3

Has your organization received any COVID-19 Funding (or, if you are an auditor, have you audited any COVID-19 Funding)?

- A. *Yes*
- B. *No*
- C. *Unsure*

Other Considerations

- Responding to federal agency request for information
 - Increased requests, particularly related to COVID-19 funding
 - Refer to Providing Access to or Copies of Audit Documentation to a Regulator
 - Consult within firm/organization to determine protocols for response
- Changes to FAC
 - FAC is currently administered by the US Census Bureau
 - Transfers to GSA on October 1, 2022
 - Census will continue to receive and process single audits for a limited period after September 30, 2022
 - Single audits with fiscal period ending in 2022 will be submitted to the new GSA FAC

Questions?

Contact Us



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