

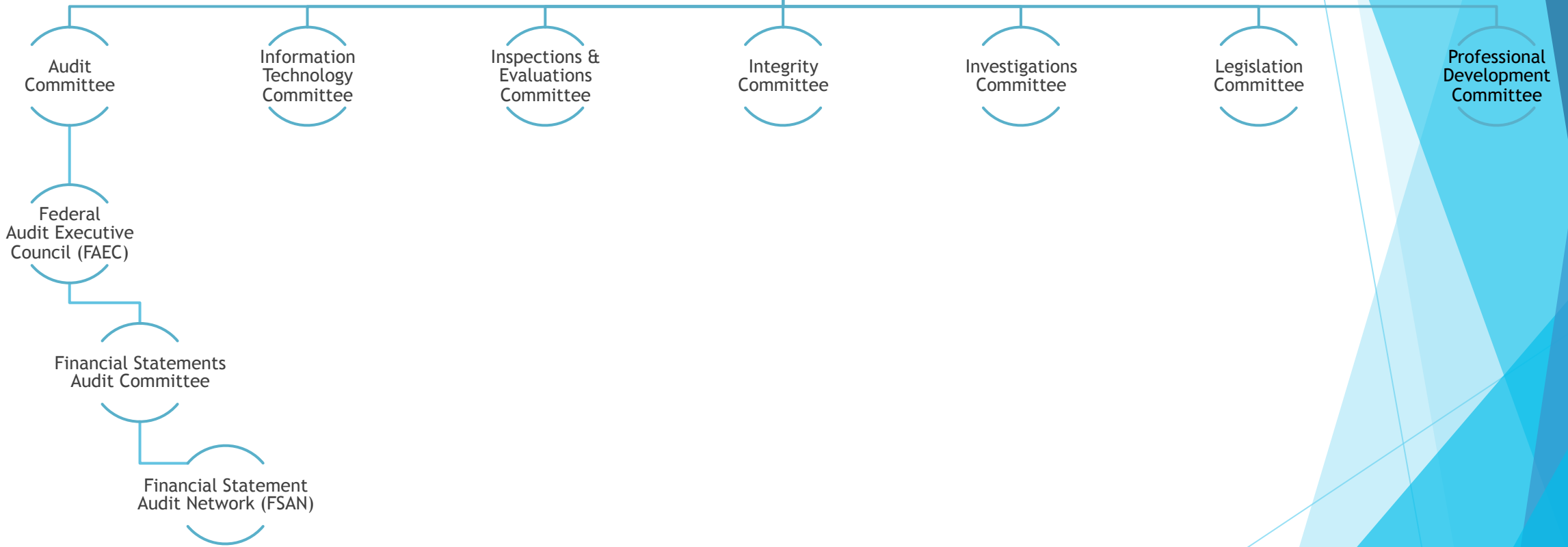
# Financial Audit Manual Update

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CIGIE



# Agenda

- ▶ Understanding the Financial Audit Manual
- ▶ Process for Updating the Financial Audit Manual
- ▶ Considerations of Updated Standards
- ▶ Key Changes
- ▶ Timeline for Comments

# Understanding the Financial Audit Manual

Joint GAO and CIGIE methodology for performing financial statement audits of federal entities.

## Standards Applicable to Federal Financial Statement Audits

- ▶ Yellow Book standards for Financial Audits
- ▶ AICPA Statements on Auditing Standards
- ▶ OMB Bulletin regarding Audit Requirements for Federal Financial Statement Audits
- ▶ AICPA Statements on Standards for Attestation Engagement
- ▶ Green Book standards for Internal Control

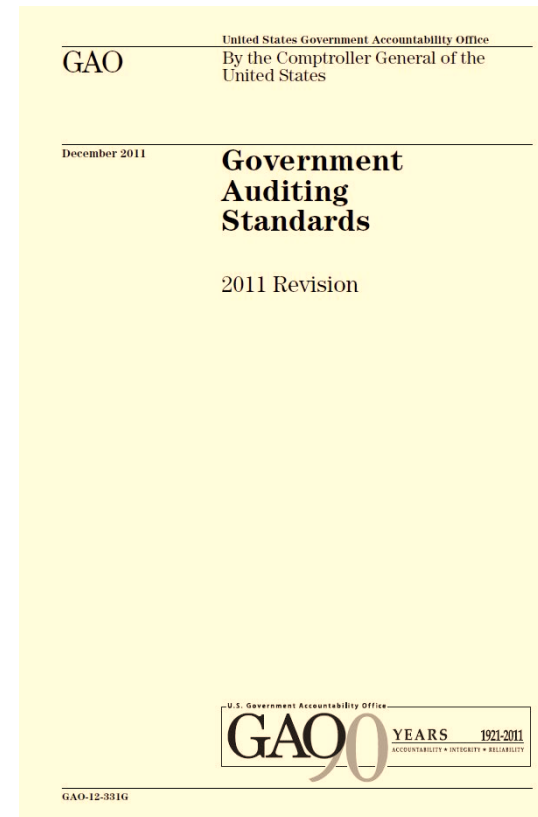
# Process for Updating the Financial Audit Manual

## Collaboration Between GAO and FSAN

- ▶ Two small teams within both FSAN and GAO
- ▶ GAO team reviewed and incorporated changes for all the updated standards.
- ▶ GAO team sent each revised section to the FSAN team for review and comment.
- ▶ GAO and FSAN teams met to discuss comments and made update as needed.
- ▶ FSAN team sent/will send the draft out for comment to the FAEC.
- ▶ FSAN team will review and consolidate the FAEC comments and provide to GAO.
- ▶ GAO and FSAN will meet to discuss comments and make updates as needed.

# Considerations of Updated Standards Yellow Book

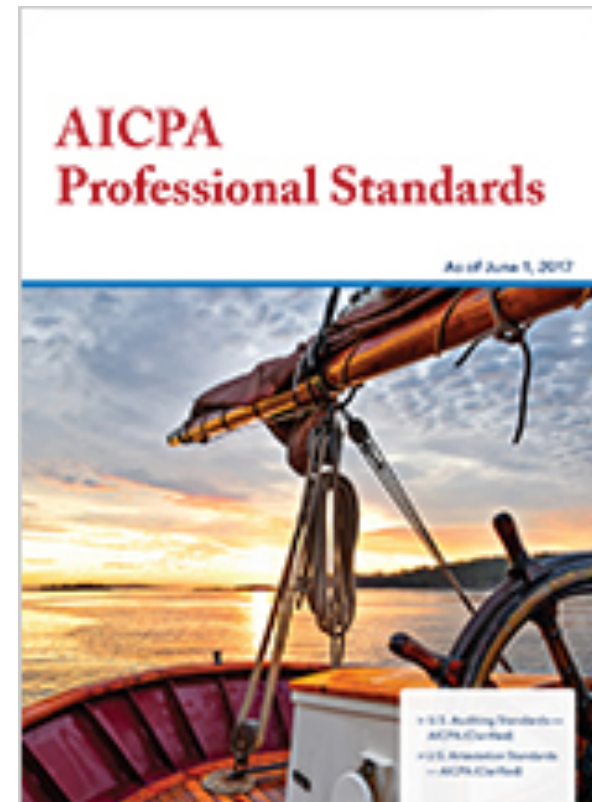
- ▶ GAO-12-331G
- ▶ Revised December 2011
- ▶ Chapter 3 - General Standards
- ▶ Chapter 4 - Standards for Financial Audits



# Considerations of Updated Standards

## AICPA Auditing Standards

- ▶ Incorporated by reference in the Yellow Book
- ▶ Clarified Auditing Standards
  - ▶ For reports issued after December 2014
  - ▶ Redrafted standards for clarity
    - ▶ Established objectives for each section
    - ▶ Includes definitions section as relevant
    - ▶ Separates requirements from application and other explanatory material
  - ▶ Converged standards to align with international standards
  - ▶ AU-C identifiers

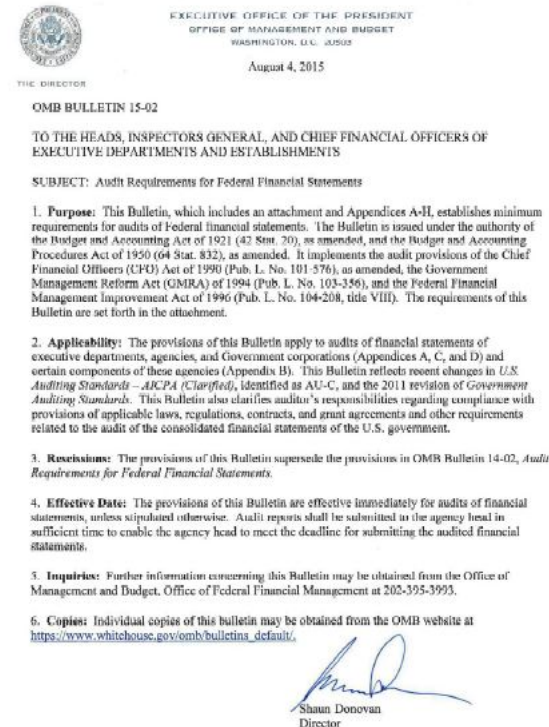


# Considerations of Updated Standards

## OMB Bulletin

### Audit Requirements for Federal Financial Statement Audits

- ▶ Currently 15-02
- ▶ Updated annually based on changes in auditing, internal control and accounting standards.

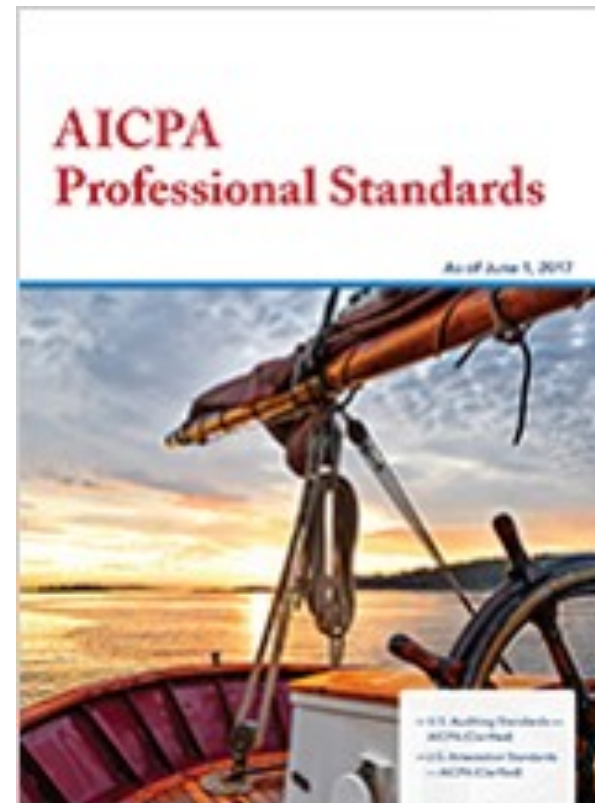




# Considerations of Updated Standards

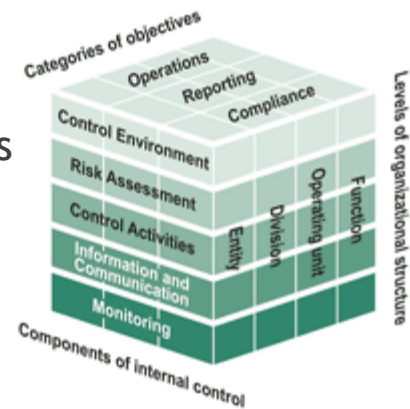
## AICPA Statements on Standards for Attestation Engagements

- ▶ Incorporated by reference in the Yellow Book
- ▶ Clarified Attestation Standards
  - ▶ For reports issued after April 2017
  - ▶ Redrafted standards for clarity
    - ▶ Established objectives for each section
    - ▶ Includes definitions section as relevant
    - ▶ Separates requirements from application and other explanatory material
  - ▶ AT-C identifiers



# Considerations of Updated Standards Green Book

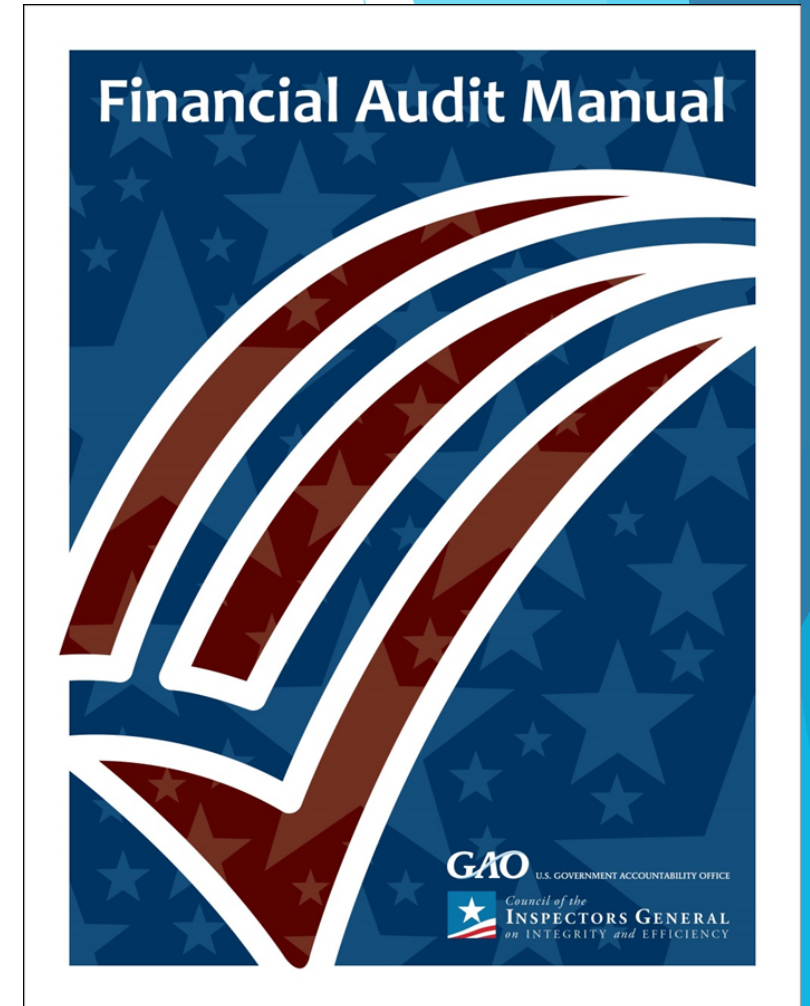
- ▶ GAO-14-704G
- ▶ Revised September 2014
- ▶ Effective by FY 2016
- ▶ Updated to align with the COSO
  - ▶ Five components of internal control.
  - ▶ Each of the five components contains several required principles.



Sources: COSO and GAO, | GAO-14-704G

# Key Changes to the Proposed FAM - Volume I

- ▶ Section 100 - Overview of the FAM
- ▶ Section 200 - Planning Phase
- ▶ Section 300 - Internal Control Phase
- ▶ Section 400 - Testing Phase
- ▶ Section 500 - Reporting Phase



# Section 100 Key Changes

## Overview of the FAM

### ▶ Definitions:

- ▶ **Must:** Mandatory compliance. Most “musts” indicate unconditional requirements that come directly from professional auditing standards.
- ▶ **Should:** Mandatory compliance. For departures, you must document (1) the justification and (2) how the alternative audit procedures performed were sufficient to achieve the intent of the requirement.
- ▶ **Generally should:** Compliance is strongly encouraged. For departures, the auditor should discuss with the assistant director/audit manager and document such discussions.
- ▶ **May, Might, Could:** Optional compliance. No need to document compliance. These terms are used in the FAM to provide further explanation of and guidance for implementing audit requirements.



# Section 200 Key Changes Planning Phase

- ▶ **FAM 215 - Preliminary Engagement Activities**
  - ▶ Acceptance of Engagement
    - ▶ Evaluating Threats to Independence
    - ▶ Ensuring the financial reporting framework is acceptable
  - ▶ Engagement Letter Required
    - ▶ Explicitly outlines management's responsibility, including required communications and representation needed during the audit
    - ▶ Management signature required



# Section 200 Key Changes Planning Phase (continued)

- ▶ **FAM 230 - Materiality**
  - ▶ **Terminology Updated**
    - ▶ Materiality for the Financial Statements as a Whole
    - ▶ Performance Materiality
    - ▶ Tolerable Misstatement
    - ▶ Clearly Trivial - Those matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature, or circumstances.
  - ▶ Overall calculation remains the same



# Section 200 Key Changes Planning Phase (continued)



- ▶ FAM 245 - Identify Significant Provisions of Laws, Regulations, Contracts and Grant Agreements
  - ▶ Expanded to explicitly include contracts and grant agreements
  - ▶ Includes mandatory procedures regarding *indirect* laws, regulations, contracts and grant agreements
- ▶ FAM 260 - Identify Risk Factors
  - ▶ Green Book updates
    - ▶ Definitions of the five components of internal control
    - ▶ Includes the principles for each component
    - ▶ Expanded discussion for risk factors for each component
  - ▶ Federal Information Security Modernization Act (FISMA) of 2014 updates



# Section 200 Key Changes Planning Phase (continued)

## FAM 280 - Plan Other Audit Procedures

- ▶ Includes guidance on:
  - ▶ Required Supplementary Information
  - ▶ Other Information
  - ▶ Supplementary Information
  - ▶ Opening Balances

## FAM 290 - Documentation

- ▶ Audit Strategy includes:
  - ▶ Conclusions reached regarding acceptance and continuance
  - ▶ Results of prior-year audits
  - ▶ Accounting and auditing standards
  - ▶ Planned interim testing
  - ▶ Supervision of staff
  - ▶ Compliance with relevant ethical requirements
  - ▶ Parties identified as those charged with governance



# Section 300 Key Changes

## Internal Control Phase

- ▶ **FAM 310 - Overview**
  - ▶ Added considerations for how the entity uses service organizations
- ▶ **FAM 350 - Determine Nature, Timing, and Extent of Control Tests**
  - ▶ Added a section of Testing Components of Internal Control over Financial Reporting, including the 17 principles
- ▶ **Former FAM 380 - Multiyear Testing**
  - ▶ Moved to FAM 420 - Design the Nature, Timing and Extent of Further Audit Procedures (and former FAM 395 G - Multiyear Testing of Controls moved to FAM 495 F)



# Section 400 Key Changes

## Testing Phase

- ▶ Overall - de-emphasis of use of IDEA software
- ▶ FAM 450 - Perform Sampling Control Tests
  - ▶ Added Table III - Testing operating effectiveness of small populations
- ▶ FAM 480 - Perform Substantive Detail Tests
  - ▶ Deleted section on manual computation of Monetary Unit Sampling (MUS) size and selecting additional sample items for MUS testing
- ▶ FAM 490 - Documentation
  - ▶ Includes documentation requirements for significant contracts and grant agreements
  - ▶ Includes documentation requirements on accounting estimates

Table III: Testing Operating Effectiveness of Small Populations

Control frequency and population Size	Items to test
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9

# Section 500 Key Changes Reporting Phase

- ▶ FAM 530 - Reassess Materiality and Risk of Material Misstatement (RMM)
  - ▶ Includes reassessment of:
    - ▶ RMM
    - ▶ Fraud Risk (previously in FAM 540)
- ▶ FAM 540 - Evaluate Effects of Misstatements on Financial Statements and Auditor's Reports
  - ▶ Terminology changes for categories of misstatements (factual, judgmental, and projected)
  - ▶ Expanded list of qualitative considerations



# Section 500 Key Changes Reporting Phase (continued)

- ▶ FAM 545 - Audit Exposure (Further Evaluation of Audit Risk)
  - ▶ New section and template
- ▶ FAM 550 - Perform Other Reporting Phase Audit Procedures
  - ▶ Distinguishes subsequent events from subsequently discovered facts
  - ▶ Expanded list of required communications with Those Charged with Governance
  - ▶ Added a section on Assessing RSI, RSSI, and Other Information
  - ▶ Added reference to Going Concern guidance

# Section 500 Key Changes Reporting Phase (continued)

- ▶ FAM 580 - Draft Reports
  - ▶ Added requirements relative to RSI and Other Information
  - ▶ Terminology changes and updates (e.g., unmodified and modified; significant deficiency and material weakness)
  - ▶ Added a table with different factors that affect the type of modified opinion
  - ▶ Emphasis-of-matter and Other Matters paragraphs
    - ▶ Added a table with various situations (related to financials, internal control, FFMIA, Compliance) and references to the applicable FAM and other authoritative guidance sections
  - ▶ Compliance includes Contracts and Grant Agreements

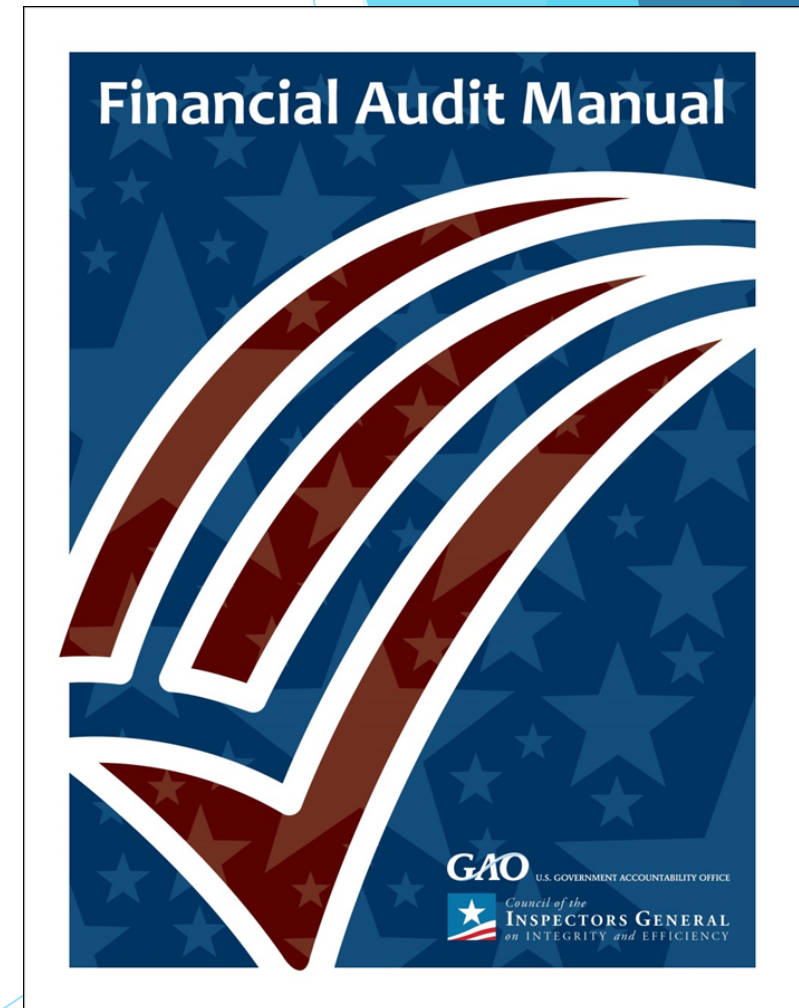


# Section 500 Key Changes Reporting Phase (continued)

- ▶ FAM 595 A and B - Example Unmodified Reports
  - ▶ FAM 595A - Example Unmodified Auditor's Reports
    - ▶ Revised for current standards
  - ▶ FAM 595 B - Example of Reporting Material Weakness or Significant Deficiency on Internal Control over Financial Reporting
    - ▶ Previously in chart format, the chart was deleted and replaced with two report examples
      - ▶ Material weakness
      - ▶ Significant deficiency

# Key Changes to the Proposed FAM - Volume II

- ▶ Section 600 - Using the Work of Others
- ▶ Section 700 - FFMIA and Agreed-Upon Procedures
- ▶ Section 800 - Compliance
- ▶ Section 900 - Substantive Testing Tools
- ▶ Section 1000 - Reporting Tools



# Section 600 Key Changes Using the Work of Others

- ▶ FAM 650 - Using the Work of Others retired
- ▶ Replaced with new sections that align to the AICPA standards
  - ▶ FAM 615 - Evaluating the Objectivity and Competence of Other Auditors or Specialists
  - ▶ FAM 620 - Using the Work of an Auditor's Specialist
  - ▶ FAM 625 - Using the Work of a Management's Specialist
  - ▶ FAM 630 - Audits of Group Financial Statements and Using the Work of Component Auditors
  - ▶ FAM 640 - Using the Work of a Service Organization
  - ▶ FAM 645 - Using the Work of an Internal Auditor
  - ▶ FAM 670 - Oversight of Audits Performed by Contracted Independent Public Accounting (IPA) Firms



# Section 600 Key Changes

## Using the Work of Others (continued)

- ▶ FAM 630 - Audits of Group Financial Statements and Using the Work of Component Auditors
  - ▶ Group financial statements include the financial information of more than one component.
  - ▶ Group Engagement Team needs to:
    - ▶ Gain an understanding of the component auditors,
    - ▶ Determine the extent of the group engagement team's involvement in the work of the component auditors, and
    - ▶ Whether to assume responsibility or refer to component auditor.
  - ▶ There are new required communications between the Group Engagement Team and component auditor.

# Section 600 Key Changes Using the Work of Others (continued)

- ▶ FAM 670 - Oversight of Audits Performed by Contracted IPA Firms
  - ▶ Because the OIG has no association with the report, the OIG chooses between:
    - ▶ No Assurance
    - ▶ Negative Assurance
  - ▶ Levels of Review Based on Assurance:
    - ▶ No Assurance - Low or No review
    - ▶ Negative Assurance - Moderate review
  - ▶ Removed High Level of Review
    - ▶ High Level of review was included in the prior FAM as part of taking responsibility for the work of others, and providing positive assurances for the auditor's work. This is no longer needed because Using the Work of Others for reasons other than contracting IPA firms, is covered under other sections of the new FAM Section 600.
  - ▶ Summary of Procedures and Documentation Table was reviewed and updated as needed.



# Section 700 Key Changes FFMIA Guidance and AUP Guidance

- ▶ **FAM 701 - FFMIA Guidance**
  - ▶ Updated to reflect the change from the financial management system requirements issued by Treasury (superseded the JFMIP PMO requirements)
  - ▶ OMB A-123 Appendix D superseded A-127
- ▶ **FAM 710 - Agreed-Upon Procedures (AUP) guidance**
  - ▶ Moved from FAM 660 to FAM 710
  - ▶ Minor changes for updates to AT-C 105, 205, 210, and 215



# Section 800 Key Changes Compliance

- ▶ The primary change is in FAM 806 related to debt collection via administrative offset. The DATA Act revised the requirement for when to report debt to Treasury for administrative offset from 180 days to 120 days.
- ▶ Other minor changes to the format and wording to be more useful to users:
  - ▶ Changed the names of some of the laws (mostly related to the U.S. Code reference)
  - ▶ Converted most of the endnotes into footnotes
  - ▶ Added guidance or regulation information to the table introduction where applicable
  - ▶ Added some statutory definitions where helpful

# Section 900 Key Changes

## Substantive Testing Tools

- ▶ FAM 902 - Intragovernmental (IGT) Activity and Balances
  - ▶ Describes key phases of the IGT process and expanded audit procedures
  - ▶ Added emphasis and defined key terms for resolving IGT weaknesses
- ▶ FAM 904 - Related Parties
  - ▶ Separated from FAM 902 - IGT Activity and Balances
- ▶ FAM 905 - Accounting Estimates
- ▶ FAM 921 - Auditing Fund Balance with Treasury (FBWT)
  - ▶ Includes expanded audit procedures
  - ▶ Updated for new Treasury reporting processes and systems

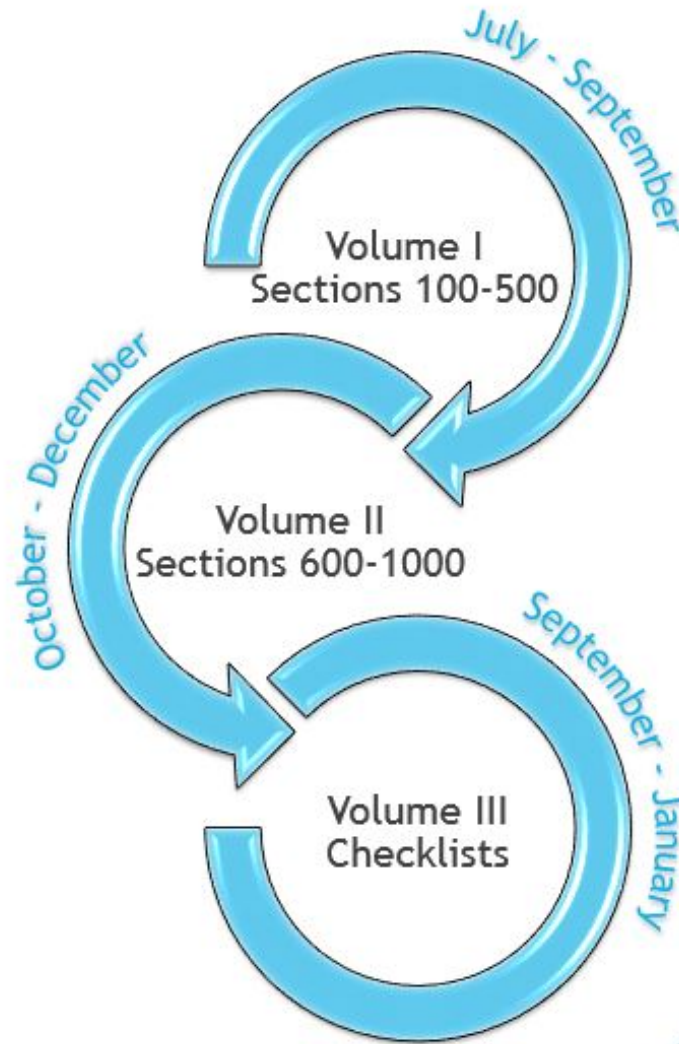
# Section 1000 Key Changes Reporting Tools

- ▶ FAM 1001 and 1002 - Templates for Legal Representation Letter and Management Representation Letters updated
- ▶ FAM 1003 - Audit Completion Checklist
  - ▶ Includes objectives from all the AU-C



# Timeline for Comments

- ▶ Volumes I and II will be issued simultaneously.
- ▶ Volume III can be issued after I and II.
- ▶ Expected release in 2<sup>nd</sup> Quarter of FY 2018, depending on types and quantity of comments.



# Special Thanks to Those That Contributed to the 2017 FAM Update

## GAO Team

- ▶ Bob Dacey
- ▶ Lynda Downing
- ▶ Paul Foderaro
- ▶ Larry Malenich
- ▶ Anne Sit-Williams

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# Questions/Comments



Additional questions can also be emailed to [FAM@gao.gov](mailto:FAM@gao.gov).