2026 Audit & Attest Update

Jennifer F. Louis, CPA

EMERGENT Solutions Group, LLC

1

Learning Objectives

- Recognize how to manage risk associated with audit and non-audit services and changing professional, technical, regulatory, or ethical requirements
- List practical examples of responding to on-going and emerging quality risks
- Recall requirements of SAS No. 149 and SAS No. 150
- Distinguish recent ethics interpretations

2

EMERGENT Solutions Group, LLC

2

Pulse Check

Are you ready to get started?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

3

New AICPA Quality Management Standards – Important Reminders About First Year of Implementation

EMERGENT Solutions Group, LLC

4

AICPA Quality Management Standards

- Apply to a CPA Firm's entire Accounting & Auditing practice
  - SSARSs, SASs, SSAEs engagements
  - Including Preparations
- PCAOB is transitioning to similar Quality Control Standards

EMERGENT Solutions Group, LLC

5

Effective Dates

1. By December 15, 2025 – Redesign the firm's system of quality management
2. By December 15, 2026 – Perform first annual evaluation of system
3. Perform new Engagement Quality Reviews when required by firm policy as follows:
   - Calendar-year 2026 F/S audits and reviews
   - Other engagements that begin on or after 12/15/25
4. SAS/SSARs effective with calendar-year 2026 audits/reviews

Note: Early adoption was permitted as a set.

EMERGENT Solutions Group, LLC

6

An Integrated Approach



Source: AICPA

EMERGENT Solutions Group, LLC

7

New Risk Assessment Process

1. Establish quality objectives
   - Some are required and some are necessary
2. Identify and assess "quality risks"
3. Design and implement responses
4. Establish policies and procedures for identifying additions or modifications

EMERGENT Solutions Group, LLC

8

Updates to Professional Standards

- *SAS No. 146 - Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- *SSARS No. 26 – Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*
- *SSAE No. 23 - Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management*
- Effective for engagements for periods beginning on or after December 15, 2025

EMERGENT Solutions Group, LLC

9

Primary Goals of Updates

- Encourage proactive management of quality at the engagement level
- Emphasize the importance of the exercise of professional skepticism
- Enhance the documentation of the accountant's judgments
- Reinforce the need for robust communications during the engagement

EMERGENT Solutions Group, LLC

10

Engagement Team Defined

- All partners and staff performing the audit/ attestation engagement and any other individuals who perform attestation procedures on the engagement
  - Excludes a practitioner's external specialist (See AU-C Section 620)
  - Excludes internal auditors who provide direct assistance on an engagement (See AU-C Section 610)

EMERGENT Solutions Group, LLC

11

Engagement Partner Example Responsibilities

1. Be satisfied that firm's policies and procedures for engagement acceptance and continuance have been followed, including conclusions about management's integrity
2. Members of the engagement team have the appropriate competence and capabilities, including sufficient time
3. Determine sufficient appropriate resources are available in a timely manner, considering any changes that may arise during the engagement

EMERGENT Solutions Group, LLC

12

Pulse Check

Do you think that CPA Firms should be more willing to not accept or continue with certain engagements in order to promote high quality audit and attest engagements?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

13

Engagement Partner Example Responsibilities

1. Direct, supervise, plan, and perform the engagement in compliance with professional standards and applicable legal and regulatory requirements
   - Continue to take overall responsibility for management and achieving quality when using the assistance of others to satisfy requirements
2. Appropriate engagement documentation is maintained
3. Ensure report is appropriate in the circumstances
   - Ensure relevant ethical requirements have been met prior to report date

EMERGENT Solutions Group, LLC

14

SAS/SSAE Engagement Partner Additional Responsibilities

- Review audit documentation at appropriate points in time, including:
  - Significant matters and judgments, including any difficult or contentious matters, and conclusions reached
  - Other matters relevant per engagement partner's professional judgement
- On or before the report date, determine that sufficient appropriate evidence has been obtained to support conclusions reached and for the appropriateness of the report to be issued
- Prior to issuance, review any formal written by-product communications

EMERGENT Solutions Group, LLC

15

Focus on Monitoring

- Provides the firm with relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
- Allows the firm to:
  - Evaluate findings and identify deficiencies
  - Respond to and remediate deficiencies on a timely basis
  - Communicate the results of the monitoring and remediation process to the relevant individuals

EMERGENT Solutions Group, LLC

16

Engagement Partner Responsibility to Knowledge Share

1. Obtain an understanding of information obtained through the firm's monitoring and remediation process, including form network
   - Determine relevant and impact on engagement
2. Remain alert for and appropriately communicate any information relevant to the firm's monitoring and remediation process

EMERGENT Solutions Group, LLC

17

Engagement Quality Review Defined

- An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon performed by the engagement quality reviewer and completed before the engagement report is released
- For engagements where EQR is required, the report should not be released until completed

EMERGENT Solutions Group, LLC

18

Inspection Defined

- Inspection is an evaluation of the adequacy of aspects of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them

EMERGENT Solutions Group, LLC

19

Specific Requirements

1. Inspect completed engagements
   - Select at least one completed engagement for each engagement partner
   - Engagement partners inspected on a cyclical basis, which may or may not be defined as "annually"
2. Evaluate findings, identify deficiencies, and evaluate the severity and pervasiveness
3. Investigate the "root cause" of identified deficiencies for systemic concerns

EMERGENT Solutions Group, LLC

20

Findings on Specific Engagements

- If required procedures were omitted or report issued may be inappropriate
  - Take appropriate action to comply with relevant professional standards and applicable legal and regulatory requirements
  - Consider legal advice
- Take further actions in the context of the overall system of quality management
  - Identify and address root cause(s)

EMERGENT Solutions Group, LLC

21

Communicating Monitoring Results

- Communicate to appropriate individuals assigned with ultimate responsibility for the quality management system
- Communicate to engagement teams and other individuals assigned activities within the system of quality management
  - Should enable prompt and appropriate action
  - Promotes a culture of quality
  - Emphasize commitment to continuous improvement

EMERGENT Solutions Group, LLC

22

Note for Sole Practitioners

- Individuals may perform monitoring, including inspections, of their own compliance
- It is not a requirement to enlist outside parties to perform monitoring and remediation
  - May be less effective than inspection by another qualified individual
- Must be able to critically review own performance and maintain an attitude of continual improvement

EMERGENT Solutions Group, LLC

23

Documentation is Critical

- Prepare documentation sufficient to support a consistent understanding of the system of quality management by firm personnel and to support consistent implementation and operations of quality responses
  - Include an understanding of firm personnel's roles and responsibilities
  - Include evidence of the design, implementation, and operation of the responses to support the evaluation of the system of quality management

EMERGENT Solutions Group, LLC

24

Clarity on Attest vs Nonattest Services

25

EMERGENT Solutions Group, LLC

25

Pulse Check

Do you agree that it is often difficult to determine whether you should comply with SSARSs Section 70 Preparation of Financial Statements?

A. Yes.

B. No.

C. Uncertain.

26

EMERGENT Solutions Group, LLC

26

Non-attest Services

- Preparation of F/S
  - Section 60 general principles
  - Section 70 engagement-specific requirements
- Bookkeeping, tax return preparation, consulting, etc.
  - AICPA *Code of Professional Conduct*
  - AICPA *Consulting Services Standards*
  - AICPA *Tax Services Standards*

27

EMERGENT Solutions Group, LLC

27

Impact of SSARS Section 70 on Peer Review

- Many state boards of accountancy (SBOA) require peer review of any SSARS engagement, not excluding Section 70 engagements
- Need to mitigate any mobility changes and risk of noncompliance with SBOA licensing requirements

28

EMERGENT Solutions Group, LLC

28

SSARS NO. 27
Consulting Engagements

- Preparing F/S as part of a consulting services engagement is not required to apply AR-C *Section 70, Preparation of Financial Statements*
  - Preparation of F/S is not the primary purpose
  - Must be performed in accordance with CS Section 100, *Consulting Services: Definitions and Standards*
- Effective for the preparation of financial statements for the periods ending on or after December 15, 2026
  - Early implementation permitted

EMERGENT Solutions Group, LLC

29

When Does it Apply?

- If the primary objective of the engagement is the preparation of financial statements, follow SSARS 21
- IF the engagement centers on recurring process support, performance insights, or other consultative services—the firm may elect to perform under CS Section 100
  - E.g., CFO or controllership services

EMERGENT Solutions Group, LLC

30

Why Does SSARS No. 27 Matter?

- May impact state board of accountancy licensing requirement compliance
- Not included in the population subject to peer review under AICPA peer review program
- Not subject to ARSC quality management requirements
- Is subject to general professional standards of professional competence, due professional care, planning and supervision, and sufficient relevant data apply to consulting services

EMERGENT Solutions Group, LLC

31

Voluntary Application of Section 70

- A practitioner may always voluntarily apply certain elements required by AR-C Section 70
  - In whole or in part
- Including the statement "no assurance is provided" would not trigger the need to obtain an AR-C Section 70 engagement letter

32

EMERGENT Solutions Group, LLC

32

Recent Peer Review Results

EMERGENT Solutions Group, LLC

33

Pulse Check

Do you think that Preparation Engagements have potential quality management issues?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

34

AICPA Annual Report on Peer Review Activities

- May 14, 2026
- Pertains to calendar year 2023-25 accepted peer reviews
- Statistics include all 14 Administering Entities (AEs)

EMERGENT Solutions Group, LLC

AICPA 2025 Peer Review Program Results

- 2,596 System Reviews
  - 82% Pass
  - 12% Passy with deficiency(ies)
  - 6% Fail
- 3,066 Engagement Reviews
  - 84% Pass
  - 10% Pass with deficiency(ies)
  - 6% Fail

NOTE: Generally, consistent with 2024 results.

EMERGENT Solutions Group, LLC

2025 Identified Reasons for Report Deficiencies

35% Engagement performance

24% Monitoring

24% Human resources

9% Leadership responsibilities for quality within the firm

5% Acceptance and continuance of client relationships and specific engagements

3% Relevant ethical requirements

37

EMERGENT Solutions Group, LLC

37

AICPA Peer Review Results 2025 Peer Review Year

- 10% of all 21,486 engagements were nonconforming

	2025	2024	2023
Compilations/Preparations with disclosures	6%	5%	7%
Compilations/Preparations omit disclosures	5%	6%	6%
Reviews	12%	11%	12%
Forecasts and Projections	0%	0%	13%
Single Audit	25%	33%	30%
Yellow Book and other governmental audits	15%	18%	18%
ERISA audits	12%	21%	22%
FDICIA	9%	7%	5%
Other audits	13%	13%	15%
AUP Engagements	6%	10%	10%
SOC Reports	16%	19%	16%
Other SSAE Engagements	10%	5%	23%

38

EMERGENT Solutions Group, LLC

38

Common Peer Review Issues with SSARSs Engagements

EMERGENT Solutions Group, LLC

39

Common Special Purpose Framework F/S Issues

1. F/S not appropriately titled
   - Must be clear that not U.S. GAAP
2. F/S not include appropriate classifications
   - Must be understandable and not misleading
3. Failure to have adequate disclosures
   - If applicable framework does not have required disclosures, draft disclosures similar in principle to U.S. GAAP

EMERGENT Solutions Group, LLC

40

Common F/S Quality Issues

1. Failure to adopt the latest accounting standards, such as CECL or or leases
2. L-T debt not properly classified and disclosed, including maturity schedule
3. Failure to disclose date through which subsequent events were evaluated
4. Related party transactions not disclosed
5. Significant estimates not disclosed
6. Improper classification in SOCF or omitting it

41

EMERGENT Solutions Group, LLC

41

Common Preparation Issues

1. Engagement letter required elements missing or not signed by both parties
2. Failure to include a "no assurance is provided" statement on each page of prepared subject matter
3. Failure to disclose applicable framework exceptions on face of financial statements
   - Including the omission of the statement of cash flows
4. Failure to disclose the fact that substantially all disclosures have been omitted on the face of the financial statements or in selected notes

42

EMERGENT Solutions Group, LLC

42

Common Compilation Issues

1. Engagement letter required elements missing or not signed by both parties
2. Failure to report on all periods presented
3. Inappropriate addressing of the use of a special purpose framework that differs from GAAP
4. Failure to mention omission of substantially all disclosures or select information only
5. Failure to mention known departures
6. Not addressing supplementary information
7. Inappropriate report date

EMERGENT Solutions Group, LLC

43

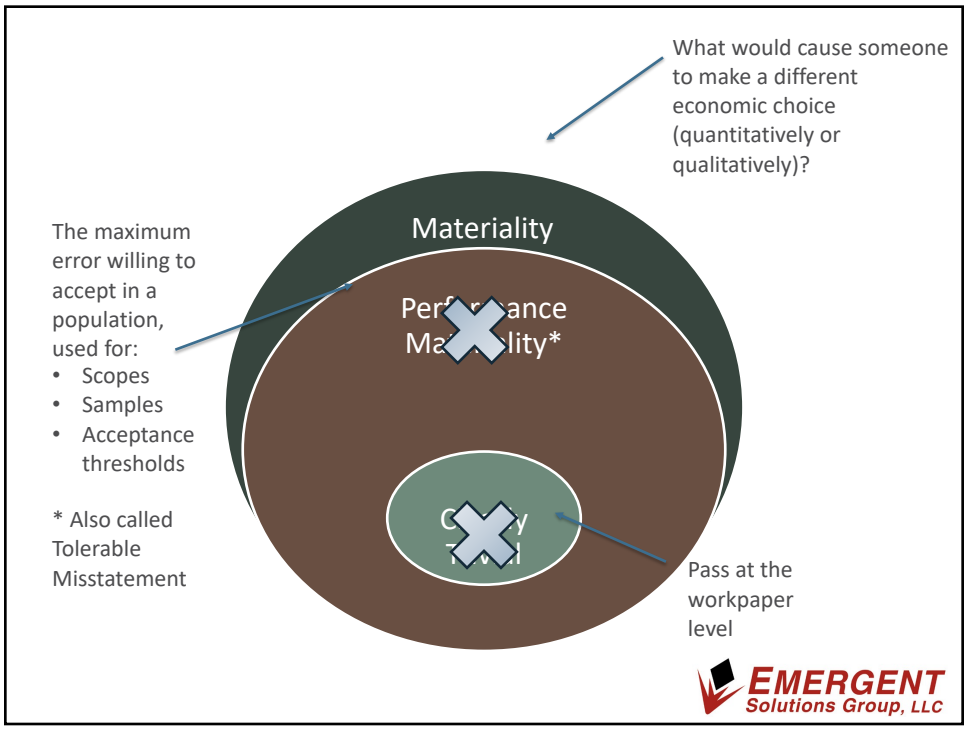
Common Review Issues

1. Engagement letter required elements missing or not signed by both parties
2. Analytical procedure expectations not adequately documented or compared to final results
3. Failure to document application of materiality
4. Basic reporting required elements omitted
   - E.g., inappropriate titles, supplementary information, no report headings, not all periods addressed
5. Management representation letter dated incorrectly or did not cover the appropriate periods

44

EMERGENT Solutions Group, LLC

44



45

Pulse Check

Do you think documentation of analytical procedures is a common quality management concern?

A. Yes.

B. No.

C. Uncertain.

46

EMERGENT
Solutions Group, LLC

46

Analytical Procedures Defined

- Evaluations of financial information through analysis of plausible relationships among both financial and nonfinancial data
- Such investigation, as necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount

47

EMERGENT Solutions Group, LLC

47

Concept of Precision

- A judgmental measure of how close the expectation is to the correct amount
  - The more precise the expectation, generally the more effective the procedure in providing assurance in detecting unexpected differences which may be the result of misstatement
- A way to address areas believed to have increased risks of material misstatement
- Similar in concept to "performance materiality" on an audit, except not required to be a quantified amount less than planning materiality

EMERGENT Solutions Group, LLC

48

Focus on Expectations

- Accountant's plausible predictions of recorded accounts or ratios
- Any significant difference between expectations and actual indicates a possible misstatement
- Seek to obtain explanations that are reasonable and consistent in light of other procedures
  - And accountant's knowledge of entity, industry, and environment
  - May involve follow-up inquiry with management

EMERGENT Solutions Group, LLC

49

Documentation - Analytics

- Expectation and factors considered in its development
- Results of comparison to recorded amounts or ratios developed from recorded amounts
- Any inquiries of management and other procedures performed to investigate differences
  - Basis for determination as to whether responses appear reasonable or whether a possible misstatement exists

EMERGENT Solutions Group, LLC

50

Handling Differences Outside of Expectation

- Permits acceptance of differences up to a particular threshold without further explanation
- Difference may be due to:
  - Misstatement
  - Reliability of the data
  - Inherent factors, such as subjectivity of the account
- Inquire of management if the reason for a difference is unknown
- Consider the cost-benefit of creating a more precise expectation

EMERGENT Solutions Group, LLC

51

Consider the Plausibility of Difference Explanations

- Consistency with explanations contained in reports issued by management or those charged with governance
  - E.g., budget vs. actual
- Consistency with minutes of those charged with governance meetings
- Unusual transactions or events in prior or current period
- Consistency with inquiry of nonfinancial personnel

EMERGENT Solutions Group, LLC

52

Most Common Problem- Lack of Adequate Documentation

- If it's not documented, it wasn't finished!
- Documentation should be sufficiently detailed to give experienced accountants who were not previously involved in the engagement a clear understanding of the work performed, the evidence obtained, and the conclusions reached
  - This includes significant professional judgments made in reaching conclusions on significant matters arising during the engagement

EMERGENT Solutions Group, LLC

53

Lessons Learned Post SAS No. 145

EMERGENT Solutions Group, LLC

54

Pulse Check

Do you find the right level of documenting inherent risk assessment is difficult?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

55

Efficiency Gains

- Lowered risk of material misstatement permitted reduced sample sizes and other less persuasive audit evidence
- Less of a tendency to default to ”low” risk vs simply stating that an assertion is “not relevant”

EMERGENT Solutions Group, LLC

56

Best Planning Practices

- Brainstorm as a group for certain industries with large concentrations of clients similar in nature
  - Develop a baseline risk assessment, which can then be tailored to specific clients

EMERGENT Solutions Group, LLC

57

Inherent Risk Assessment Documentation

- The form and extent of the auditor's documentation is influenced by the nature, size, and complexity of the entity and its system of internal control, availability of information from the entity, and the audit methodology and technology used in the course of the audit
- It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it

EMERGENT Solutions Group, LLC

58

Key Documentation Point

- The auditor is not required to document every inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level
- The manner in which the requirements of AU-C 315 are documented is for the auditor to determine exercising professional judgment

EMERGENT Solutions Group, LLC

59

General Documentation Rule

- The form, content, and extent of audit documentation should be 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
  - Including the conclusions reached and the rationale for the significant professional judgments made

EMERGENT Solutions Group, LLC

60

Factors to Consider in Documentation

- Factors include the need to document a conclusion or the basis for a conclusion otherwise not readily determinable from the documentation of the work performed or audit evidence obtained
- An example of such a circumstance may be the rationale for significant judgments related to the inherent risk of an identified risk of material misstatement, when such rationale is not otherwise evident from the audit documentation

EMERGENT Solutions Group, LLC

61

Small Entity Considerations

- For the audits of less complex entities, the form and extent of documentation may be simple and relatively brief
- Such audit documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan
- Similarly, for example, the results of the risk assessment may be documented separately or as part of the auditor's documentation of further audit procedures

EMERGENT Solutions Group, LLC

62

Inherent Risk Assessments – Things to Avoid

1. Lack of diligence in significant risk designations
2. Citing controls for inherent risk assessments
3. Assessments of control risks below maximum without testing operating effectiveness of controls
4. Risk of material misstatement not defaulted to inherent risk when control risk is assessed at maximum due to lac of testing of operating effectiveness

EMERGENT Solutions Group, LLC

63

Summary of Inherent Risk Documentation Key Points

1. AU-C 315 does not have a requirement to specifically document ALL inherent risk assessments below high or maximum or some other set level
2. AUC 315 does require "significant judgments related to the inherent risk of an identified risk of material misstatement, when such rationale is not otherwise evident from the audit documentation"
3. AU-C 315.A269 specifically indicates that "the auditor is NOT required to document EVERY inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level"
4. It is a particularly important reminder to focus documentation on significant judgments not otherwise evident in the audit documentation

EMERGENT Solutions Group, LLC

64

Pulse Check

Do you feel that the AICPA has been helpful in providing audit firms proper support and resources in improving audit quality?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

65

Common Peer Review Issues – Internal Control Responsibilities, Including IT

EMERGENT Solutions Group, LLC

66

Importance of Evaluating Design & Implementation

- Understanding **how** management has set up its system of internal control helps the auditor to form a view about where the auditor's attention should be placed
  - Helps determine what constitutes a significant account, class of transaction, or disclosure and where significant risks of material misstatement may occur
  - Assists in designing tests of operating effectiveness, when applicable
  - Impacts design of substantive procedures

67

EMERGENT Solutions Group, LLC

67

The Design and Implementation Evaluation Process

- Design – Control, individually or in aggregate, capable of preventing, or detecting and correcting, material misstatements, whether due to fraud or error
  - Understand how system is designed to function
- Implementation – Control exists and entity is using it

68

EMERGENT Solutions Group, LLC

68

Presumptively Relevant Controls

1. Controls that address a risk that is determined to be a significant risk
2. Controls over journal entries and other adjustments
3. Controls for which the auditor plans to test operating effectiveness in determining the nature, timing, and extent of substantive procedures
4. Should include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
5. Other controls that, based on the auditor's professional judgment, the auditor considers are appropriate to enable the auditor to meet the objectives with respect to risks at the assertion level

69

EMERGENT Solutions Group, LLC

69

Other Controls That **May** Require Assessment

1. Controls that address risks assessed as higher on the spectrum of inherent risk but have not been determined to be a significant risk
2. Controls related to reconciling detailed records to the general ledger
3. Controls related to accounting estimates
4. Complementary user entity controls, if using a service organization

70

EMERGENT Solutions Group, LLC

70

Key Point About Scope of Understanding

- The auditor is not required to identify and evaluate all information-processing controls related to the entity's policies that define the flows of transactions and other aspects of the entity's information-processing activities for the significant classes of transactions, account balances, and disclosures
  - Or to every assertion relevant to them
- Identified controls are sometimes referred to by auditors as "relevant" or "key" controls

71

EMERGENT Solutions Group, LLC

71

Things to Avoid – Evaluating Controls

- Preparation of voluminous process narratives with no documentation of identified controls
- Failing to perform procedures beyond inquiry related to the implementation of identified controls
- Firms performing walk-throughs that did not address the identified controls
- Failure address controls related to significant risks specifically

EMERGENT Solutions Group, LLC

72

Understanding the IT Environment

- The auditor's understanding may focus on identifying and understanding the nature and number of the specific IT applications and other aspects of the IT environment that are relevant to the flows of transactions and processing of information related to federal awards in the information system
- The auditor may identify the IT applications and supporting IT infrastructure concurrently with the auditor's understanding of how information flows into, through, and out of the entity's information system

EMERGENT Solutions Group, LLC

73

IT Environment Includes

- The complexity or level of customization related to IT applications
- Third-party hosting or outsourcing
- The use of interfaces, data warehouses, or report writers
- The use of manual and automated elements

EMERGENT Solutions Group, LLC

74

Pulse Check

Do you struggle with knowing the extent of proper documentation of an entity's IT general controls?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

Effectiveness Note – When Compliance Audits Involved

- The IT applications used to administer compliance are often different than those used for the preparation of financial statements
- Therefore, the IT applications, the related risks arising from the use of IT, and general IT controls for a Uniform Guidance compliance audit are often different than those identified in the audit of the financial statements

EMERGENT Solutions Group, LLC

Risks Arising From the Use of IT

- Manage Access
  - Users have access privileges beyond those necessary to perform assigned duties
  - Systems are not adequately configured or updated to restrict system access
  - Inappropriate changes are made through direct data access

EMERGENT Solutions Group, LLC

77

Risks Arising From the Use of IT

- Manage program or other changes
  - Inappropriate changes are made to system software, the application system, or the database structure
  - Data converted from legacy systems or previous versions introduce data errors
- Manage IT operations
  - Failure to make necessary changes to IT applications or other aspects of the IT environment
  - Financial data cannot be recovered in a timely manner when there is a loss of data

EMERGENT Solutions Group, LLC

78

Example: Software Application List

- Maintain a comprehensive list of critical software applications
  - If employees are allowed to install software without approval, the environment is at risk
  - Serves as an operational safeguard when turnover or unforeseen circumstances require others to step in and pick up job responsibilities

EMERGENT Solutions Group, LLC

79

Example: Vendor Management Program

- Create a solid vendor management program that performs due diligence on all vendors who may have access to private data
  - E.g., employees, customers, donors, etc.

EMERGENT Solutions Group, LLC

80

Example: Password Parameters

- Put policies in place that ensure employees, contractors, or volunteers who may have accounts for applications or software are required to set complex passwords and change them regularly
- Multi-factor authentication (MFA) adds an additional level of security

EMERGENT Solutions Group, LLC

81

Pulse Check

Do you feel that identified internal control deficiencies should impact risk of material misstatement assessments on audits?

A. Yes.

B. No.

C. Uncertain.

82

EMERGENT Solutions Group, LLC

82

Impact of Identified Deficiencies

Note: May be a deficiency in design, implementation, or operating effectiveness



EMERGENT Solutions Group, LLC

83

Focus on Group Audits Per SAS No. 149

EMERGENT Solutions Group, LLC

84

SAS No. 149

- *Special Considerations – Audits of Group Financial Statements (Including the Work Component Auditors and Audits of Referred-to Auditors)*
- Effective for F/S audit periods ending on or after 12/15/26
- Converges with ISA 600, while retaining the option of making reference to the audit of a component auditor

EMERGENT Solutions Group, LLC

85

Group Defined by SAS No. 149

- A reporting entity for which group financial statements are prepared
- Group F/S include the financial information of more than one entity, function, business activity, or business unit through a consolidation process

EMERGENT Solutions Group, LLC

86

Consolidation Process for Application of SAS No. 149

- Consolidation, proportionate consolidation, inclusion, or an equity method of accounting
- The presentation in combined financial statements of the financial information of entities or business units that are under common control or common management
- The aggregation of the financial information of entities or business units such as branches or divisions

87

EMERGENT Solutions Group, LLC

87

Pulse Check

Do you think that equity method investments should be included in group audit special considerations?

A. Yes.

B. No.

C. Uncertain.

88

EMERGENT Solutions Group, LLC

88

Examples of Group Audits

- Consolidated subsidiary
- Entity combined because under common control
- Consolidated affiliate, such as variable-interest entity
- Investment in a joint venture
- Equity method investment
- Cost method investment, when other auditor reports constitute a major element of evidence
- Entity where separate function, location, product/service is managed, and financial results separately reported, to head office

89

EMERGENT Solutions Group, LLC

89

Can Concepts Apply to Other Audits?

- Adapted to the circumstances, this guidance may be useful in audits that are not group financial statements
  - E.g., using another auditor to observe inventory of inspect physical fixed assets at a remote location

90

EMERGENT Solutions Group, LLC

90

Determining What Audit Work is Required

- The group auditor uses professional judgment in determining the components at which audit work will be performed
- Determination is based on the group auditor's understanding of the group and its environment, and other factors such as:
  - The ability to perform audit procedures centrally,
  - The presence of shared service centers, or the existence of common information systems and controls

EMERGENT Solutions Group, LLC

What if Component is Audited?

- A component auditor may be required by law or regulation or may have been engaged by component management for another reason to express an audit opinion of the F/S of a component
- The guidance of AU-C 600 still applies

EMERGENT Solutions Group, LLC

Involving Component Auditors

- The engagement partner must determine that sufficient appropriate resources are assigned or made available in a timely manner
  - This may include component auditors, who are a part of the engagement team
- The group auditor must determine the nature, timing, and extent of involvement of component auditors

93

EMERGENT Solutions Group, LLC

93

Involving Referred-To Auditors

- A group engagement partner may determine to make reference to the audit of a referred-to auditor in the report on the group F/S
  - In situation where the referred-to auditor has performed an audit of component F/S and issued a report thereon
- Not the same as a component auditor
  - Not a part of the engagement team

94

EMERGENT Solutions Group, LLC

94

Requirements to Be Able to Use Reference Option

1. Referred-to auditor has performed an audit in accordance with GAAS or PCAOB
2. Read the component's F/S and related audit report for significant findings and issues
   - Communicating with referred-to auditor as needed
   - Referred-to auditor's report may not be restricted in use
3. If a different financial reporting framework was applied, appropriate steps are taken (described later in materials)

95

EMERGENT Solutions Group, LLC

95

Interacting With Component Auditors

96

EMERGENT Solutions Group, LLC

96

Component Auditor Overall Considerations

1. Must evaluate component auditor competence and independence, including willingness and ability to comply with ethical requirements
2. Identify any relevant regulatory requirements
3. Consider extent that group engagement team will be involved with component auditor work
4. Whether information affecting the consolidation process from a component auditor will be able to obtained
5. Ensure able to get sufficient appropriate information for consolidation

97

EMERGENT Solutions Group, LLC

97

Preliminary Communications with Component Auditor

1. Confirm willingness to cooperate with group engagement team
2. Relevant ethical requirements, including independence
3. Related parties, with request for sharing necessary additions
4. Relevant identified significant risks
5. Request open communication of overall findings, conclusions, and opinion in order to evaluate impact on group audit opinion

98

EMERGENT Solutions Group, LLC

98

Final Communications with Component Auditor

1. Whether complied with group engagement team requirements
2. Findings that could be material to the group F/S:
   - Noncompliance with laws or regulation
   - Significant risks of material misstatement and responses
3. All corrected and uncorrected misstatements
4. Indication of possible management bias
5. All material weaknesses and significant deficiencies
6. All communications to those charged with governance

99

EMERGENT Solutions Group, LLC

99

Pulse Check

Do you think that there should be open and robust communication between the component auditor and group auditor?

A. Yes.

B. No.

C. Uncertain.

100

EMERGENT Solutions Group, LLC

100

Additional Responsibilities - Assuming Responsibility of Component Work

1. Component performance materiality and trivial
2. Appropriateness of type of work (e.g., review, audit)
3. Identification, evaluation, and response to significant risks:
   - Understand business activities significant to group
   - Susceptibility to risk of material misstatement due to fraud or error
   - Review documentation of identified significant risks and planned further audit procedures
4. Review subsequent events through group audit report date

101

EMERGENT Solutions Group, LLC

101

Subsequent Event Considerations

- The group auditor may request component auditors to perform procedures designed to identify events that may require adjustment of, or disclosure in, the group F/S
- The group auditor should request the component auditors to notify them if they become aware of subsequent events that may require adjust of, or disclosure in, the group F/S

102

EMERGENT Solutions Group, LLC

102

Focus on Equity Method Investees

EMERGENT Solutions Group, LLC

103

Using Audited Investee F/S as Audit Evidence

- Obtain and read the audited F/S of the noncontrolled entity, including the accompanying audit report, and determine whether the audited F/S are satisfactory audit evidence
- If the difference between the F/S period of the group and the noncontrolled entity has or could have a material effect on the group F/S
  - Determine whether group management has properly considered the lack of comparability
  - Determine the effect, if any, on the group auditor's report in accordance with AU-C section 708, *Consistency of Financial Statements*

EMERGENT Solutions Group, LLC

104

Using Audited Investee F/S as Audit Evidence

- If the carrying amount of the noncontrolled entity on the group financial statements is materially different from the underlying equity in net assets of the noncontrolled entity on the noncontrolled entity financial statements
  - Obtain sufficient appropriate audit evidence for the material differences
  - Determine that such differences are appropriate in accordance with the applicable financial reporting framework

EMERGENT Solutions Group, LLC

105

Communication With Group Management and Those Charged With Governance

EMERGENT Solutions Group, LLC

106

Required Communications With Group Management

- Group material weaknesses and significant deficiencies relevant to the group
  - Whether identified by the group engagement team or brought to its attention by a component auditor
- Fraud to the appropriate level of management on a timely basis
- Request that group management inform component management any matters of significance
  - Discuss with governance if management refuses
  - Consider legal consultation if remains unresolved

107

EMERGENT Solutions Group, LLC

107

Required Communications With Group Governance

1. Overview of work performed on components
2. Basis for decision whether to make reference to work of component auditor
3. Planned group auditor's involvement in work of component auditor
4. Any instances concerned about the quality of component auditor's work
5. Any limitations on the group audit
6. Fraud or suspected fraud consistent with general required communications with governance

108

EMERGENT Solutions Group, LLC

108

ASB:
New Standard Related to External Confirmations

EMERGENT Solutions Group, LLC

109

SAS No. 150
External Confirmations

- Issued July 2026
- Effective for audits of FYE on or after 12/15/28
  - Early implementation permitted
- Should consider whether external confirmation procedures are to be performed as substantive procedures to respond to assessed risks of material misstatement for certain relevant assertions of significant classes of transactions, account balances, or disclosures

EMERGENT Solutions Group, LLC

110

SAS No. 150
External Confirmation Defined

- Audit evidence obtained as a written communication with the auditor directly from a confirming party
  - Either in paper or electronic form
  - In response to an external confirmation request
- An intermediary is not a confirming party, but directly facilitates external confirmation

EMERGENT Solutions Group, LLC

111

SAS No. 150 – Exceptions for Confirming Cash and Cash Equivalents

1. External confirmation is impracticable
2. The auditor's assessed risk of material misstatement at the relevant assertion level is low
   - And other planned substantive procedures address the assessed risk
- Prohibited by law or regulation

EMERGENT Solutions Group, LLC

112

Focus on Impracticable

- Impracticable = they cannot be performed in the circumstances
  - E.g., no confirming party can be identified
  - E.g., confirming party requires the use of an intermediary and law or regulation precludes their use
- Procedures are not effective – but not impracticable – when such procedures can be performed but are not expected to achieve the intended purpose
  - E.g., confirming party can be identified, but response is unlikely

EMERGENT Solutions Group, LLC

113

SAS No. 150 – Exceptions for Confirming Significant A/R

1. External confirmation procedures would be ineffective
   - E.g., response rates will be inadequate, responses will be unreliable, procedures will be impracticable
2. The assessed RMM at the relevant assertion is low and other planned substantive procedures address the assessed risk

EMERGENT Solutions Group, LLC

114

SAS No. 150 Risk-Based Approach

- Apply a risk-based approach
  - Does not require ALL cash to be confirmed
  - Focus on relevant assertions for significant accounts, classes of transactions, or disclosures
- Should document the basis for any determination not to use external confirmation for both accounts receivable and cash

EMERGENT Solutions Group, LLC

115

Selecting Items for Testing

1. 100% examination
2. Selecting specific items
3. Audit sampling

EMERGENT Solutions Group, LLC

116

Directly Accessing Information

- **May** obtain relevant and reliable audit evidence by directly accessing information maintained by a knowledgeable external source
  - E.g., obtaining read-only access to information maintained by a financial institution directly on-line using credentials provided to the auditor by the financial institution
  - The auditor's access to information may be facilitated by an intermediary

EMERGENT Solutions Group, LLC

What is Not Direct Access

1. Information is obtained electronically from an external information source and the auditor's access to the data is provided by management
2. When visual information is obtained through observation
   - E.g., the auditor observes information that appears on-screen of management or employees
3. When documents are obtained in electronic documentary form
   - E.g., records maintained on a distributed ledger or published information for general public use

EMERGENT Solutions Group, LLC

Example Alternative Procedures

1. Viewing information directly on a secure website of the financial institution when access is provided by management
2. Viewing specific subsequent receipts by matching to actual items being paid
3. Viewing shipping documents provided by the carrier
4. Viewing purchase orders or contracts signed by the customer
5. Viewing statements received from vendors

EMERGENT Solutions Group, LLC

119

Information Which May Contradict External Confirmation Response

1. Was not received by the auditor directly from the confirming party
2. Comes from a physical or electronic address other than on the request
3. Does not include a signature of the confirming party or otherwise identify the party
4. Does not include a copy of the original request, email chain, or any other information that the confirming party is responding to

EMERGENT Solutions Group, LLC

120

Use of Intermediary in the Confirmation Process

- Facilitates direct electronic transmission of confirmation requests and responses
- Understand the intermediary's controls that address the risk of interception and alteration of the confirmation requests and responses
- Determine whether relevant controls used by the intermediary are designed and operating effectively
  - May rely on work of an SOC Report
  - Bridge letter may be deemed necessary

121

EMERGENT Solutions Group, LLC

121

Use of Intermediary Key Points

- Ensure audited entity does not have the ability to override the intermediary's controls
- Should consider the intermediary's means of validating the addresses of confirming parties
  - Or perform alternative procedures, such as validating addresses or e-mail domains on the internet

122

EMERGENT Solutions Group, LLC

122

Negative Confirmations- Required Conditions

1. Either:
   - The auditor performs one or more substantive procedures OR
   - The auditor has assessed the risk fo material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion
2. The population is comprised of a large nUmber of small, homogeneous account balances, transactions, or conditions

EMERGENT Solutions Group, LLC

123

Negative Confirmations- Required Conditions

3. The auditor expects a very low exception rate in response to request and has a reasonable basis for this expectation
4. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests

EMERGENT Solutions Group, LLC

124

Recent Significant Ethics Interpretations & Other Modifications

125

EMERGENT Solutions Group, LLC

125

Pulse Check

Do you ever assist attest clients with employee or executive recruiting?

A. Yes.

B. No.

C. Uncertain.

126

EMERGENT Solutions Group, LLC

126

Executive or Employee Recruiting

- Approved by PEEC in November 2024
- Effective 1/1/26
  - Early implementation permitted

EMERGENT Solutions Group, LLC

127

What is a Key Position?

- Significant Accounting Functions
  - Supporting material parts of financial statements
- Financial Statement Preparation
  - Direct responsibility for creating financial statements
- Influence Over Financial Statements
  - Holding positions like CEO, CFO, Controller, General Counsel, or other equivalent roles

EMERGENT Solutions Group, LLC

128

Assistance That Can **Not** Be Safeguarded

- Advises on the specific terms of employment, renumeration, or related benefits of a particular candidate for a **key position**
- Searches for or seeks out candidates for **key positions**
- Undertakes reference checks of prospective candidates for a **key position**
- Recommends to the attest client only one candidate for consideration for a **key position**
- Ranks candidates for a **key position** whether or not using the attest client's criteria

EMERGENT Solutions Group, LLC

129

Assistance That Can **Not** Be Safeguarded

- Hires or terminates an attest client's employees
- Negotiates with the candidate on behalf of the attest client
- Commits the attest client to employee compensation or benefit arrangements

EMERGENT Solutions Group, LLC

130

Assistance That May Be Safeguarded

- Recommend or advise on position description or candidate specifications
- Advise on the general terms of employment, remuneration, or related benefits of a particular position
- Search for or seek out candidates for **non-key** positions using the attest client's criteria
- Review candidate resumes provided by the attest client to identify those that meet the attest client's criteria

EMERGENT Solutions Group, LLC

131

Assistance That May Be Safeguarded

- Interview candidates and advise on a candidate's competence based on the attest client's criteria for any position
- Recommend to the attest client more than one candidate for any position for consideration based on the attest client's criteria, including providing analysis of how each candidate meets the attest client's criteria
  - If only one candidate for a non-key position meets the attest client's criteria, the member should apply the "Conceptual Framework"

EMERGENT Solutions Group, LLC

132

Simultaneous Employment or Association With Attest Client

- Effective September 15, 2026
- New Definition:
  - When a partner or professional employee of the member's firm serves as a member of those charged with governance or as an employee of an attest client during the period of the professional engagement
  - This includes contractual or volunteer positions at the attest client

EMERGENT Solutions Group, LLC

133

Key Prohibitions

- Prohibits covered members from any simultaneous employment or association with an attest client
- Prevents any partner or professional employee from holding a key position at an attest client
- Exceptions for independent contractors and specific situations

EMERGENT Solutions Group, LLC

134

Pulse Check

Do external accountants often get offers to work with clients?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

135

Intent to Accept Offer of Employment or Association

- A reporting requirement triggered by a member's intent to accept an attest client's offer of employment or association
  - The person should promptly report the offer to an appropriate person in the firm
  - The appropriate person should apply the "Conceptual Framework for Independence"
- An inadvertent and isolated failure will not impair independence if the relevant parties perform the required procedures promptly upon discovery of such failure and meet all other provisions of this interpretation

EMERGENT Solutions Group, LLC

136

Independent Contractors

- When an employee of an attest client is engaged as an independent contractor by the firm to perform professional services for the attest client, the following is prohibited:
  - A member of the attest engagement team for the same attest client
  - An individual in a position to influence the attest engagement for the same attest client
  - In a key position at the same attest client
  - Serving in a role held by those charged with governance at the same attest client

EMERGENT Solutions Group, LLC

137

Alternative Practice Structures

- Exposure Draft comments due April 30, 2026
- Considers Alternative Practice Structures (APS) with Private Equity (PE)
  - E.g., the investor may or may not control the nonattest entity and other investees, depending on how portfolio funds are managed
- Revises definition of "network firm" and "direct superior"

EMERGENT Solutions Group, LLC

138

Tax Services for Attest Clients

- Issued July 15, 2026
- Effective January 15, 2027
- Clarifies what might impair independence, such as tax planning services and advisory involving how to structure affairs in a tax-efficient manner or advising on the application of a tax law or regulation

EMERGENT Solutions Group, LLC

139

Tax Services Covered

1. Tax advisory and tax planning
2. Preparation of a tax return
3. Transmittal of a tax return
4. Transmittal of any related tax payment to the taxing authority
5. Signing and filing a tax return
6. Having a power of attorney limited strictly to tax matters
7. Authorized representation of attest clients in administrative proceedings before a taxing authority

EMERGENT Solutions Group, LLC

140

Example Tax Advisory and Tax Planning Services

1. Advising on structuring its domestic or international affairs in a tax-efficient manner
2. Advising on structuring of transfer-pricing arrangements, taking into account tax-related transfer-pricing guidelines
3. Advising on the utilization of losses in a tax-efficient manner
4. Advising on how to structure its capital-distribution strategy in a tax-efficient manner

EMERGENT Solutions Group, LLC

141

Example Tax Advisory and Tax Planning Services

4. Advising on how to structure the employing organization's compensation strategy for senior executives on a tax-efficient manner
5. Advising a not-for-profit attest client on how to structure its business to avoid breaching its not-for-profit status
6. Advising on how to structure its investments to avail itself of tax incentives offered by jurisdictions or localities

EMERGENT Solutions Group, LLC

142

Factors to Consider in Evaluating Independence Threats

1. Level of confidence that the output of the tax services will be supported by applicable tax laws, regulations, or other precedents
2. Output is based on established practice that is commonly used by the profession and complies with the requisite levels of authority
3. Members provides services under the assumption that the output will be specifically reviewed by the relevant tax authorities

EMERGENT Solutions Group, LLC

143

Factors to Consider in Evaluating Independence Threats

4. Significance of the tax services to the subject matter of the attest engagement, such as the attest client's financial statements

EMERGENT Solutions Group, LLC

144

Example Safeguards For Tax Advice and Tax Planning

1. Using professionals who are not on the attest engagement team to perform the services
2. Having an appropriate reviewer who was not involved in providing the services review the attest work or services performed
3. Obtaining preclearance of the transaction from the relevant tax authorities

EMERGENT Solutions Group, LLC

145

What's Next???

EMERGENT Solutions Group, LLC

146

ASB Upcoming Important Projects

- Consideration of Fraud in a Financial Statement Audit
- Focus on Sustainability Reporting

EMERGENT Solutions Group, LLC

147

Changing Guidance for Yellow Book and Single Audits

EMERGENT Solutions Group, LLC

148

Government Auditing Standards

- Also called "Yellow Book" or Generally Accepted Government Auditing Standards (GAGAS)
- Issued by the Comptroller General of the United States of the U.S. Government Accountability Office (GAO)
- Last issued 2024
- Supplements AICPA, PCAOB, or IAASB standards



149

EMERGENT Solutions Group, LLC

149

Effective Date

- Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025
- Effective for performance audits beginning on or after December 15, 2025
- Design and implement system of quality management by December 15, 2025
  - Evaluate the system by December 15, 2026
- Early implementation permitted

150

EMERGENT Solutions Group, LLC

150

Uniform Guidance Organization

The organization of the Uniform Guidance for Federal Awards					
Subpart A - Acronyms and Definitions (§200.00 - §200.99)	**Subpart B - General Provisions (§200.100 - §200.113)**	**Subpart C - Pre-Federal Award Requirements and Contents of Federal Awards (§200.200 - §200.211)**	**Subpart D - Post Federal Award Requirements (§200.300 - §200.345)**	**Subpart E - Cost Principles (§200.400 - §200.475)**	**Subpart F - Audit Requirements (§200.500 - §200.521)**
⬆	⬆	⬆	⬆	⬆	⬆
Contains acronyms and definitions used in administrative requirements, cost principles, and audit requirements.	Contains some broad overall guidance (e.g., effective dates)	Contains administrative requirements		Contains cost principles	Contains audit requirements

151

EMERGENT Solutions Group, LLC

151

Effective Date of New Uniform Guidance

- Applicable to federal awards issued on or after October 1, 2024
  - Federal agencies may elect adopt any provision (other than Single Audit and major program threshold requirements) as early as 6/21/24 and as late as 10/1/25
  - E.g., HHS adopted some provisions as of 10/1/24 and the rest to go into effect on 10/1/25

152

EMERGENT Solutions Group, LLC

152

Effective Date of Single Audit Requirements

- Applicable to fiscal years beginning on or after October 1, 2024
  - September 30, 2025
  - December 31, 2025
  - March 30, 2026
  - June 30, 2026

153

EMERGENT Solutions Group, LLC

153

2026 OMB Compliance Supplement

- Effective for audits of FYB after 6/30/25
- Federal agencies are responsible for annually informing OMB of updates
- Use is mandatory
- Laws and regulations change periodically, while CS is published annually

154

EMERGENT Solutions Group, LLC

154

Organization of OMB Compliance Supplement

- Part 1 – Background, Purpose, and Applicability
- Part 2 – Matrix of Compliance Requirements
- Part 3 – Compliance Requirements
  NOTE: Inclusion of Part 3.1 and 3.2 no longer necessary with 2024 UG revisions in full effect
- Part 4 – Agency Program Requirements
- Part 5 – Cluster of Programs
- ~~Part 6 – Internal Control~~
- Part 7 – Guidance for Auditing Programs Not Included in This Compliance Supplement
- Part 8 – Appendices

155

EMERGENT Solutions Group, LLC

155

Internal Control Design Best Practices

- UG refers to the following documents as sources for best practices:
  - Standards for Internal Control in the Federal Government (Green Book)
  - Internal Control Framework issued by the Committee on Sponsoring Organizations (COSO)
- No expectation or requirement to document or evaluate prescriptively in accordance with these best practices
- Apply judgment in application to circumstances

EMERGENT Solutions Group, LLC

156

2025 Green Book

- Standards for Internal Control in the Federal Government
- Effective first day of FYB 2026
  - Generally, October 1, 2025
  - Early implementation permitted
- Example changes:
  - Documentation of results of risk assessments and adaptations to significant changes as they occur
  - Enhanced focus on fraud, improper payments, and information security

EMERGENT Solutions Group, LLC

157

Proposed 2026 Uniform Guidance

- Published in Federal Register on May 29, 2026, with comments due July 13, 2026
- October 1, 2026, effective date proposed with a single government-wide impact

158

EMERGENT Solutions Group, LLC

158

Example Proposed Changes

- Rebranding as "Uniform Grants Regulation" (UGR)
- Clarifies that 2 CFR, subtitle A is a "regulation" not "guidance" for agencies to adopt
- Clarifies that a federal agency, an Inspector General, or the GAO may impose additional audits only when authorized by statute
- Removes "annually updated" from the compliance-supplement definition (The OMB and the HHS Office of Inspector General are reassessing the single-audit process under the Financial Management Risk Reduction Act)
- Deletes the directive to align internal controls with the Comptroller General's "Green Book" or the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

159

EMERGENT Solutions Group, LLC

159

Pulse Check

Do you agree that an ANNUAL update of the OMB Compliance Supplement it not necessary?

A. Yes.

B. No.

C. Uncertain.

160

EMERGENT Solutions Group, LLC

160

Example Proposed Changes

- Eliminates fixed-amount awards and subawards
- Mandatory participation in DHS's E-Verify program and use of Treasury's "Do Not Pay" system for recipient employees
- Proposing the inclusion of "confidential business information" as a protected category for cybersecurity
- New restrictions on allowable costs, including advertising and public relations, publication costs, conferences, and lobbying
- For subrecipients, new obligations for pass-through entities to report awards through SAM.gov and confirm that all subawards are properly documented
- Would prevent certain transfers from being treated as internal allocations exempt from subrecipient monitoring, further enhancing oversight

161

EMERGENT Solutions Group, LLC

161

Still Have Questions?

- Appendix III of the Supplement includes contact information for agency single audit coordinators or program officials
- Notice of Funding Opportunities
- Terms and conditions of award documents
- www.sam.gov

EMERGENT Solutions Group, LLC

162

The Latest on the AICPA Audit Guide

163

EMERGENT Solutions Group, LLC

163

2025 AICPA Audit Guide on GAS and Single Audits

- AICPA Guides do not have effective dates as they do not establish requirements
- Auditors are required to consider applicable interpretative publications in planning and performing the audit
- Appendixes to the guide are included for informational purposes and have no authoritative status
- Last major update on GAS-SA Guide was in 2009 in response to 2007 Federal Audit Quality Study

164

EMERGENT Solutions Group, LLC

164

2025 AICPA *Audit Guide* Updates

1. 2024 Uniform Guidance
2. 2024 Government Auditing Standards
3. AICPA SASs through SAS No. 149
4. AICPA SQMS

EMERGENT Solutions Group, LLC

165

2026 AICPA Audit Guide on GAS and Single Audits

- Once the content in Appendix B is included in the body of the 2026 guide, the auditing related content will become an interpretive publication
  - As defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

166

EMERGENT Solutions Group, LLC

166

Pulse Check

Do you think that guidance in performing compliance audits could be more risk-based?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

167

Reorganization: A Visual of 2024 GAS-SA Guide vs. 2025 Appendix B

Ch #	2024 GAS-SA Guide Chapter Title
1 - 4	Government Auditing Standards
5	Single Audit Act, Uniform Guidance Audit Requirements, Compliance Supplement
6	Auditor Planning Considerations Under the Uniform Guidance
7	Schedule of Expenditures of Federal Awards
8	Determination of Major Programs
9	Consideration of Internal Control Over Compliance for Major Programs
10	Compliance Auditing Applicable to Major Programs
11	Audit Sampling Considerations of Uniform Guidance Compliance Audits
12	Audit Considerations of Pass-Through Entities and Subrecipients
13	Auditor Reporting Requirements and Other Communication Considerations in a Single Audit
14	Program-Specific Audits

17

Ch #	2025 Appendix B Chapter Title
5	Overview of Uniform Guidance Audit Requirements
6	Compliance Supplement
7	Preliminary Engagement Activities
8	Planning Consideration
9	Schedule of Expenditures of Federal Awards
10	Determination of Major Programs
11	Performing Entity-Wide Procedures
12	Identification and Assessment of Risks of Material Noncompliance
13	Testing Internal Control Over Compliance For Each Major Program
14	Testing Compliance Applicable to Each Major Program
15	Evaluation and Reporting of Findings
16	Reporting
17	Completion
18	Post Audit Considerations
19	Program-Specific Audits

EMERGENT Solutions Group, LLC

168

New Chapter 11
Performing Entity-Wide Procedures

- The term "entity-wide procedures" is used to describe risk assessment and other procedures performed collectively for more than one major program that are administered (operate) within same environment (organizational unit)
  - Understanding the Entity and Its Environment
  - Understanding the Components of the Entity's System of Internal Control
  - IT Applications and General IT Controls
  - Discussion Among the Engagement Team
  - Consideration of Fraud
  - Results of Previous Audits, Attestation Engagements, and Monitoring

169

EMERGENT Solutions Group, LLC

169

Required Level of Risk Assessment

- Required level of risk assessment and other procedures
  - Major program as a whole (major program level)
  - Each direct and material (D&M) compliance requirement subject to audit (individual compliance requirement level)

EMERGENT Solutions Group, LLC

170

New Chapter 12 – Identifying and Assessing RMN

- Understanding of Major Program
- Determining Materiality for Each Major Program
- Identifying Types of Compliance Requirements Subject to Audit
- Determining DM Compliance Requirements
- Identifying RMNCs
- Assessing Inherent Risk and Control Risk

EMERGENT Solutions Group, LLC

171

Risk of Material Noncompliance

(a) There is a reasonable possibility of noncompliance occurring (that is, likelihood), and

(b) If it were to occur, there is a reasonable possibility of the noncompliance being material (that is, magnitude)

NOTE: Identify the RMNCs for each D&M compliance requirement

EMERGENT Solutions Group, LLC

172

Overall Approach to Identify and Assess RMNCs

1. Obtain an understanding of major programs, including types of costs charged
2. Determine materiality for each major program
3. Identify types of compliance requirements subject to audit
4. Determine D&M compliance requirements
5. Identify RMNCs applicable to D&M compliance requirements
6. Assess inherent risk and control risk

EMERGENT Solutions Group, LLC

173

Key Point
Direct and Material Compliance

- If expenditures for a cost category exceed materiality for the major program, it is an indicator that the type of compliance requirement related to that cost category is D&M
  - Meaning it is "relevant" or "subject" to audit
  - But may end up being "low" risk of material noncompliance

EMERGENT Solutions Group, LLC

174

Identifying Risk at the Compliance Requirement Level

- Allowable costs may be comprised of subcategories for assessing IR and CR:
  - Payroll compliance and related controls
    - Direct payroll costs
    - Fringe benefit costs
  - Other than payroll compliance and related controls

EMERGENT Solutions Group, LLC

175

General Rule

- If controls are not tested or are not effective
  - The auditor should assess control risk at the maximum level
  - Such that the assessment of the risk of material noncompliance is the same as the assessment of inherent risk

EMERGENT Solutions Group, LLC

176

New Chapter 13 – Testing Internal Control Over Compliance

- Obtaining Understanding of Control Activities
- Testing Operating Effectiveness of Controls
- Performing Control Sampling of Manual Controls
- Evaluating Cumulative Evidence for Operating Effectiveness

EMERGENT Solutions Group, LLC

177

2026 Focus on Risk Associated with the Control (RAWTC)

- Defined as the risk that the control might not be effective to address the RMNC
  - Generally, not less than the inherent risk of the RMNCs it related to
  - May be greater based on various factors
- RAWTC determines how much audit evidence the auditor needs to obtain to achieve planned control risk (e.g., reliance)
  - e.g., Determine the number of sample items to select when testing the operating effectiveness of a control

EMERGENT Solutions Group, LLC

178

Process for Understanding Control Activities

Step 1 – Understand process activities

Step 2 – Identify process risk points (PRPs)

- PRP are often viewed as the "where" and "how" in the entity's process noncompliance applicable to the RMNC could occur

Step 3 – Identify which controls address the RMNC

Step 4 – Evaluate design and determine implementation of identified controls

EMERGENT Solutions Group, LLC

179

2026 Control Testing Sample Sizes Assuming Zero Deviations Expected

NOTE: There is one table for both small and large populations

	Low	Moderate	High
Annual (1)	1	1	1
Quarterly (4)	2	2	2
Monthly (12)	2	3	4
Semi-Monthly (24)	3	5	7
Weekly (52)	5	7	9
Population 53-249	10%	15%	25%
Daily/Recurring (250+)	25	40	60

180

EMERGENT Solutions Group, LLC

180

Example of Allowing for a Deviation in Tests of Controls

- Testing the same manual control for 4 major programs with > 250 sampling units in which RAWTC is assessed as moderate
  - Control sample size = 40 selected across 4 programs
- Testing compliance could be 30 for each of the 4 major programs based on IR = Moderate and assumption of effectively operating controls
- If dual-purpose testing, then 120 items are tested for the 4 major programs
  - Likely large enough to accept one deviation

EMERGENT Solutions Group, LLC

181

Note About Accepting Deviations

- When designing a sample to accept deviations:
  - Consult a sampling specialist
  - Refer to Appendix A of AICPA Audit Guide *Audit Sampling*

EMERGENT Solutions Group, LLC

182

Testing Controls Over Multiple Major Programs

- An entity may use the same controls for a type of compliance requirement for more than one program
- Transactions may be combined into one population for determining the sample size and making selections for tests of controls
  - Select items expected to be representative of the population

EMERGENT Solutions Group, LLC

183

Lack of Documentation of Control Activity Being Performed

- The lack of control documentation of a control is likely a deviation when:
  a. The operating effectiveness is not evident in any documentation prepared by the control operator, and
  b. Management cannot provide other evidence that the control operated consistently as designed

EMERGENT Solutions Group, LLC

184

If a Low Assessed Level of Control Risk is Not Supported

- The auditor is not required to expand testing of internal control over compliance for that RMNC
- The auditor would:
  1. Assess control risk of noncompliance at the maximum
     - That is, not effective or not able to rely on controls
  2. Design tests of compliance accordingly
  3. Consider the need to report an audit finding
     - In general, a significant deficiency or a material weakness in internal control over compliance will need to be reported

EMERGENT Solutions Group, LLC

185

New Chapter 14 – Testing Compliance

- Performing Tests of Compliance in Response to Assessed Risks
- Understanding Population and Considering Completeness
- Testing Compliance
- Evaluating Relevance and Reliability of Information
- Considering Sufficiency and Appropriateness of Audit Evidence
- Appendix of Examples of Populations, Sampling Units and Procedures to Test Completeness

EMERGENT Solutions Group, LLC

186

Individually Important Items

- Items that, standing alone, are significantly different from the remainder of the population
- Quantitatively large items in relation to the population that are not tested could result in an unacceptably high level of detection risk for the auditor
  - E.g., The auditor could establish a threshold to identify individual items that represent 20% or more of the population being tested for an RMNC as individually important to effectively reduce detection risk

EMERGENT Solutions Group, LLC

187

2026 Compliance Sample Size With Reliance on Internal Controls

Number of Items in Population	Low Inherent Risk	Moderate Inherent Risk	High Inherent Risk
10 or less	35%	45%	55%
11-24	20%	25%	30%
25-49	15%	18%	21%
50-149	12%	15%	18%
150-249	10%	12%	15%
250+	25 Items	30 Items	40 Items

188

EMERGENT Solutions Group, LLC

188

Units in Population Approaches Higher End of the Range

- The calculated sample size may be higher than would result if the population was at the beginning of the next range
  - The auditor may use professional judgment to select a sample size using the lowest number of units in the population of the next range
- For example, if the population is 149 units and inherent risk is moderate, the calculated sample size would be 23 (15% × 149)
  - However, if the population was 150 units (the lowest number in the next range), the calculated sample would be 18 (12% × 150)
  - Therefore, the auditor could use a sample size of 18

189

EMERGENT Solutions Group, LLC

189

2026 Compliance Sample Size NO Reliance on Internal Controls

Number of Items in Population	Low Inherent Risk	Moderate Inherent Risk	High Inherent Risk
10 or less	50%	60%	70%
11-24	30%	40%	50%
25-49	25%	30%	35%
50-149	20%	25%	30%
150-249	15%	20%	25%
250+	30 Items	40 Items	60 Items

190

EMERGENT Solutions Group, LLC

190

Example – Documenting Sample Size Inputs

- Obtained an Excel spreadsheet from entity management of eligible participants who received benefits during the period tested
  - Verified mathematical accuracy of the total number of participants and total benefits,
  - Reconciled program reports without exception
- Haphazardly selected 40 participants for dual-purpose testing in a population of 250+ items
  - Testing RAWTC as "moderate" per table
  - Testing of RMN of compliance of "low", where 25 is acceptable but choosing to test larger of the two

EMERGENT Solutions Group, LLC

191

Expanding Original Sample Sizes

- Ordinarily, it is not practical to expand the original sample to be able to accept additional exceptions
  - The sample size would likely be very large
  - The test objective will still not be met if actual exceptions exceed expected exceptions for the expanded sample
- However, completing the test may allow the auditor to better include a fuller perspective of the audit finding

192

EMERGENT Solutions Group, LLC

192

New Chapter 15 – Evaluating and Reporting Findings

- Evaluating Control Deficiencies
- Evaluating Instances of Noncompliance
- Other Reportable Findings
- Elements of a Findings
- Communicating Other Findings to Management

193

EMERGENT Solutions Group, LLC

193

Important Point

- It is not appropriate to use attribute sampling to determine the extent or quantitative impact of noncompliance on the population
  - It merely provides evidence for determining content for the schedule of findings and questioned costs

194

EMERGENT Solutions Group, LLC

194

Considering Whether a Population is Homogeneous

- The auditor reconsiders whether the population is homogeneous
  - E.g., by location or type of transaction
- If the population is not homogeneous, the auditor disaggregates the RMNC by sub-populations
  - E.g., 2 regions have no exceptions and 1 region does
  - E.g., individuals were eligible, while eligibility determination was not performed timely

195

EMERGENT Solutions Group, LLC

195

Example of Evaluating Reporting

- If noncompliance is material to the type of compliance requirement
  - Report a compliance finding as it meets Uniform Guidance Subpart F criteria
- If noncompliance is material to a major program
  - Modify opinion as qualified or adverse

196

EMERGENT Solutions Group, LLC

196

Pulse Check

Do you learn something today?

A. Yes.

B. No.

C. Uncertain.

EMERGENT Solutions Group, LLC

197

Thank you!

EMERGENT Solutions Group, LLC

198