



**AICPA Audit Clarity Standards– How Will Your Audit Engagement be Affected?**

*By: Doug Moses, Meredith Lipson and Miller Edwards*

Over the last several years, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) has been in the process of modifying generally accepted auditing standards (GAAS) through the **Clarity Project**. The Clarity Project has resulted in the first complete redrafting and recodification of GAAS in 41 years with the issuance of the following *Statements on Auditing Standards (SAS)*:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*;
- SAS No. 123, *Omnibus Statement on Auditing Standards – 2011*;
- SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*;
- SAS No. 125, *Alert That Restricts the Use of the Auditor’s Written Communication*

The impact of these standards on your audit will depend on your government’s activities. However to some degree, these standards will affect all governments and all phases of the audit process. The following summarizes the more significant changes:

**Engagement Letters**

In previous years, you may have been provided with a multi-year engagement letter. Under the new standards, auditors are required to review the terms of the engagement with you annually. Additionally, the wording of the engagement letter has been modified from that which you have seen in the past. Although management responsibilities have not changed, those responsibilities are now spelled out more clearly in the engagement letter.

**Changes in Auditors = Initial Audit Engagements**

When performing an audit of your government for the first time, new auditors are required to perform and document certain procedures on beginning or opening balances even when such balances have previously been audited. Such procedures include testing whether prior period closing balances are brought forward correctly, whether opening balances reflect appropriate application of accounting principles; and evaluating evidence about opening balances from current period audit procedures.

As always, we are available as a resource to you as questions arise. We are in this together, as both auditor and auditee will have to keep up with evolving and fluid guidance from the Federal and State governments.

Please contact any of our governmental partners and managers, at 1-855-891-0070 for assistance.

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|----------------|---------------------|
| Tommye Barie   | tbarie@mjcpa.com    |
| Joel Black     | jblack@mjcpa.com    |
| Leanne Cross   | lcross@mjcpa.com    |
| Miller Edwards | medwards@mjcpa.com  |
| Adam Fraley    | afraley@mjcpa.com   |
| Doug Moses     | dmoses@mjcpa.com    |
| Wade Sansbury  | wsansbury@mjcpa.com |
| James Bence    | jbence@mjcpa.com    |
| Jeff Gerhard   | jgerhard@mjcpa.com  |
| Matt Hill      | mhill@mjcpa.com     |
| David Irwin    | dirwin@mjcpa.com    |
| Craig Moye     | cmoye@mjcpa.com     |



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### **Confirmations**

Under the new standards, all confirmations are now required to be in writing. In the past, auditors may have relied on verbal confirmations. Therefore, you may be requested to contact banks, grantors, etc. to make sure they respond directly to the auditors in a timely manner.

### **Service Organizations**

Many governments use outside service organizations to assist in various processes (payroll processing, insurance claims/benefits, etc.). Auditors are now required to ask the auditee specific questions about the service organization. If the auditors are relying on the service auditor's report, the auditor will be required to evaluate the report in more depth.

### **Laws and Regulations**

The new standards require auditors to obtain an understanding of a government's legal and regulatory framework and to review any correspondence received from licensing or regulatory agencies. Be prepared for more dialogue, inquiries, and questions from your auditors if your government has received correspondence from licensing or regulatory agencies.

### **Changes to Independent Auditor's Report**

The format of the auditors' report has changed under the new clarity standards. The auditors' report now has headings and sub-headings which distinguish each section, and includes a more complete description of management's responsibilities. Additionally, what was once an "unqualified" or "qualified" opinion is now referred to respectively as "unmodified" or "modified".

### **Communication of Internal Control Matters**

Under the new standards, auditors are required to include a description of the potential effects of any significant deficiencies or material weaknesses reported. Additionally, communication is required with management for any deficiencies in internal control noted during the audit process that are not considered to be significant deficiencies or material weaknesses, although these communications can be oral or in writing.

### **Management Representation Letter**

The management representation letter may include additional or expanded disclosures as compared to the representation letters signed in prior years.

### **Group Audit Standards**

One of the more significant changes to come from the Clarity Project is the concept of a **group audit**. A group audit is an audit of financial statements with more than one component. A *component* is an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. Examples of components include: component units; departments/offices or constitutional offices within a government with separate financial reporting systems; joint ventures with an equity interest; and pension or OPEB funds. Group audits can involve auditors from different firms or auditors from different offices or teams within the same firm.

The most significant impact on audits that fall under this standard will occur when group financial statements and component financial statements are audited by different firms. The standard requires the group audit engagement team to communicate specific information with the component auditor and the component auditor must also communicate certain matters to the group engagement team. Additionally, the group auditor or the component auditor must perform procedures to identify subsequent events at the component between the date of the component auditor's report and the date of the group auditor's report. This could potentially cover a significant period of time depending on the component's year end and the timeliness of their audit. Management should be prepared to facilitate this process.

In closing, this newsletter only points out "some" of the significant changes under the Clarity Standards. Although these standards will require additional procedures for the auditors and in certain cases, additional work for the auditee, the standards should improve the overall quality of the audit and communications between the auditors and auditees, and should increase the public's confidence level of the audited financial statements.

## **Partner Spotlight**

### **Meredith Lipson, CPA**

Meredith Lipson is a partner with Mauldin & Jenkins, LLC. Meredith graduated with a BBA in Accounting from the University of Georgia in 1990 and currently works and resides in Macon, Georgia with her husband, Marc, and their daughter and son. Since joining Mauldin & Jenkins in 1991, the majority of her experience has been with providing audits and other services to state and local governments. She has been a featured speaker at various GGFOA Conferences and other GGFOA workshops as well as Mauldin & Jenkins governmental training classes.

Meredith is a Certified Public Accountant in Georgia and Florida, and is a member of the American Institute of Certified Public Accountants, the Georgia Society of CPAs, the Government Finance Officers Association (GFOA), and the Georgia Government Finance Officers Association (GGFOA). She has served on the Ethics Committee of the Georgia Society of CPAs and volunteers with various community and neighborhood organizations.

### **Doug Moses, CPA**

Douglas Alexander Moses ("Doug") became a partner at Mauldin & Jenkins, LLC effective September 1, 2009. He has been with the firm for thirteen (13) years and specializes in audits of governmental entities, primarily cities, counties, school districts, state agencies, and special purpose entities. He earned his BBA in Accounting, Magna Cum Laude, from Georgia Southwestern State University in 1997 and an MBA with an emphasis in Accounting, with honors, from Georgia Southern University in 1999. Originally from Ocilla, Georgia, Doug serves on the Alumni Board of Trustees at Georgia Southwestern State University (GSW) as the President, as well as serving as a member on the GSW Foundation Board. He is a member of the Government Finance Officers Association, the Georgia Government Finance Officers Association, the National Association of Black Accountants, Inc., the National Association of Government Accountants, the American Institute of CPAs, the Association of Government Accountants, and Georgia Society of CPAs. Doug is married to Yolanda Sims Moses (GSW Graduate in 2001, Computer Science) of Oakfield, Georgia. They have two daughters, Camille Alexandria Moses, and Gabrielle Alexis Moses.