

SFFAS 54: Reducing Audit Risk

2024 CIGIE / GAO Financial Statements Audit Conference

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Panelists

Moderator

Joshua R. Williams, CPA, CGFM
Senior Analyst, FASAB staff

Panelists

Robert F. Dacey, JD, CPA, CGFM
Chief Accountant, GAO; FASAB member

Ricky A. Perry, Jr., CPA, CGFM
Assistant Director, FASAB staff

Disclaimer

- The thoughts expressed during this session are those of the speakers.
- The FASAB expresses its positions through official pronouncements after extensive due process and deliberations.

Learning Objectives

- Recap and revisit some 2022, 2023 conference discussions
- Technical agenda update
 - SFFAS 62, TR 22
- Lessons learned: ASC 842, PCAOB inspection examples
- SFFAS 54 audit risk reduction strategies
- Discuss the role of the IG, oversight of non-federal auditors
- Discuss the role of the engagement quality management system and how best to leverage the system

2023 Discussion – Recap

- Audit planning
 - Understanding SFFAS 54, auditee’s lease portfolio
 - Understanding relevant accounting applications and policies, implementation methods, risk factors
- Internal control, substantive, and dual-purpose testing
- Audit documentation
 - Principle support for audit, opinion
 - Sufficient detail and record of procedures performed, evidence obtained, conclusions reached and why

Technical Agenda Update

- TR 22, *Leases Implementation Guidance Updates*
 - Issued October 2023
 - Amends TR 20
 - 7 Q&A added
 - 3 Q&A amended
- SFFAS 62, *Transitional Amendment to SFFAS 54*
 - Issued November 2023
 - Amends SFFAS 54
 - Par. 96A-96E added
 - Eligibility criteria (par. 96A)
 - Accommodation, flexibilities
 - Pre- and post-accommodation period considerations

Lessons Learned – PCAOB Inspections

- Conducts a continuing program of inspections of registered accounting firms to assess compliance with certain laws, rules, and professional standards involving public companies and other issuers
 - Audits are selected for inspection using risk-based and random methods.
- Issues a report on each inspection, a portion of which is publicly available
 - **Part I.A Deficiencies:** Deficiencies that were of such significance that the PCAOB believes the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer’s financial statements and/or ICFR.
 - **Part II Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm’s system of quality control. Publicly issued if firms do not satisfactorily address inspection findings within 12 months after report issuance.

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2024-033, Issuer R (Part 1.A Deficiency)

Issuer R identified misstatements in its accounting for certain leases and control deficiencies associated with these misstatements.

Audit deficiencies identified:

- Firm did not evaluate the severity of the control deficiencies individually, or in combination, to determine whether they represented a material weakness (AU-C 265.09*)
- Firm performed substantive procedures to test certain of these misstatements but did not test, or test any controls over, the completeness of the lease data that the issuer used to calculate these misstatements (AU-C 500.07-.08)

Source: PCAOB, www.pcaobus.org. * PCAOB standards are cited in the PCAOB release deficiency descriptions. For purposes of this training, they are replaced with similar government auditing standards for purposes of applying lessons learned to the federal environment.

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2024-033, Issuer X (Part 1.A Deficiency)

Issuer X entered into an amendment to an existing lease agreement during the fiscal year.

Audit deficiency identified:

- Firm did not identify and evaluate that the issuer's accounting for this lease amendment was not in conformity with FASB ASC Topic 842, *Leases* (AU-C 700.14-15)

Also consider: AU-C 330.06

Source: PCAOB, www.pcaobus.org

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2021-153, Issuer A (Part 1.A Deficiency)

Firm selected controls for testing :

1. Auditee’s evaluation of its leases for potential implications with respect to adoption of FASB ASC Topic 842, *Leases*
2. Auditee’s review of disclosures related to Topic 842 adoption.

Audit deficiency identified:

- Firm did not evaluate the specific review procedures that the control owner performed to evaluate the completeness of the population of leases subject to these controls (AU-C 330.08-.10)

Source: PCAOB, www.pcaobus.org

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2021-153, Issuer A (Part 1.A Deficiency)

Firm selected the following control for testing:

Auditee's quarterly review of lease contracts for appropriate accounting treatment subsequent to initial adoption.

Audit deficiency identified:

- Firm did not test the aspect of this control that addressed the completeness of the population of leases used in the operation of the control (AU-C 330.08-.10)

Source: PCAOB, www.pcaobus.org

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2021-153, Issuer A (Part 1.A Deficiency)

Firm selected the following control for testing:

Reconciliation of the lease asset and liability balances from the lease sub-ledger to the general ledger.

Audit deficiency identified:

- Firm did not identify and test any controls over the accuracy of the lease information included in the manually-prepared spreadsheets that the control owners used in the operation of the control (AU-C 330.06-.10)

Source: PCAOB, www.pcaobus.org

Lessons Learned – PCAOB Inspection Examples

PCAOB Release No. 104-2023-036A, Issuer G (Part 1.A Deficiency)

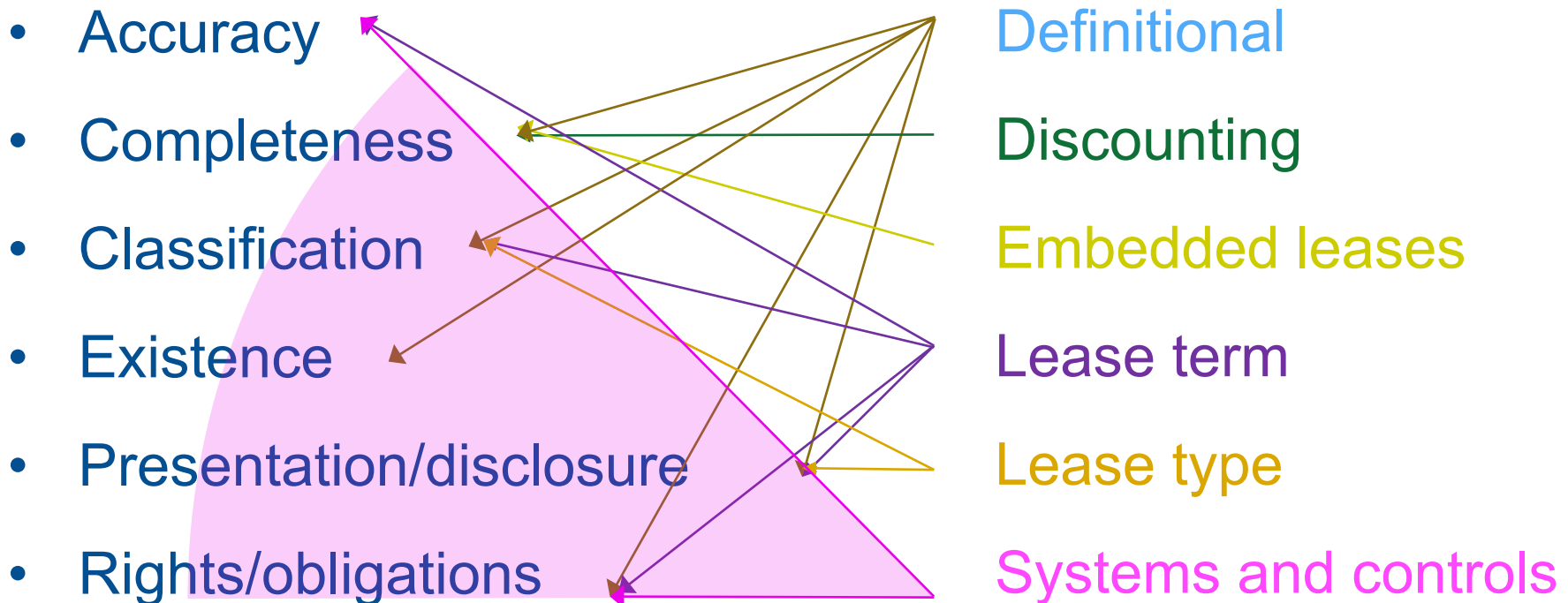
The auditee reported lease assets and lease liabilities.

Audit deficiencies identified:

- Firm did not sufficiently evaluate whether any of the auditee’s leases met the criteria for classification as finance leases because the firm did not perform procedures to determine whether applicable criteria were met (AU-C 330.08, .18)
- Firm did not perform any substantive procedures to (a) evaluate the reasonableness of the discount rate used to estimate lease liabilities (AU-C 540.08, .35) or (b) determine whether the auditee developed the discount rate in conformity with FASB ASC Topic 842 (AU-C 330.08, .18)
- Firm did not perform sufficient procedures to test whether the auditee had identified all of the lease arrangements because it did not perform any procedures to test the completeness of the auditee’s list of leases (AU-C 500.07-.08)

Source: PCAOB, www.pcaobus.org

Assertions and Risks



Audit Risk Reduction Strategies

- Panel discussion
 - Audit risk reduction strategies and areas of focus for auditing SFFAS 54 implementation
 - The role of the OIG – oversight of non-federal auditors
 - The role of the quality management system

Thank you!

Questions?

For additional information about SFFAS 54, *Leases*, please visit fasab.gov or contact Alan at PerryRA@fasab.gov.

Please direct GAGAS-related questions to YellowBook@gao.gov and FAM-related questions to FAM@gao.gov.