

Memorandum

Date: July 7, 2011

To: GAO's Financial Management and Assurance Team (FMA)
CIGIE Financial Audit Community

From: James R. Dalkin, Director - FMA

Subject: Professional Standards Update No. 55*
January through April 2011

In order to alert you to changes in professional standards, we issue Professional Standards Updates. The purpose of these updates is to highlight the issuance and some key points of recent standards. Professional Standards Updates do not contain a complete summary of the standards. Those affected by the new standards should refer to the relevant standard for details. Thanks to Bruce David, Tom Hackney, Theresa Phipps, and Gail Vallieres for their contributions to this issue which contains summaries of:

Auditing and Attestation Standards and Guidance

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

- Clarified SAS: Audit Evidence—*Specific Considerations for Selected Items*
- Clarified SAS: Special Considerations—*Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- Clarified SAS: *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*
- Clarified SAS: *Consistency of Financial Statements*
- SSARS No. 20, *Revised Applicability of Statements on Standards for Accounting and Review Services*

Regulatory Requirements

OFFICE OF MANAGEMENT AND BUDGET (OMB)

- M-11-16, Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123 (*April 2011*)
- M-11-12, 2011 Discount Rates for OMB Circular No. A-94 (*February 2011*)

Accounting Standards and Guidance

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

- Financial Reporting Model Task Force Report to the FASAB: *Electronic, Web-Based Financial Reporting*

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

- Accounting Standards Update No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

* Previously issued Professional Standards Updates can be found at <http://www.gao.gov/govaud/psu.htm>

Auditing and Attestation Standards and Guidance

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

www.aicpa.org/

Clarity Project Update & Newly Revised Standards: Update

Relevance to Government Audits: HIGH

The most recently revised Clarity Standards with significant changes from extant standards are listed below:

- **Clarified SAS: Audit Evidence—*Specific Considerations for Selected Items***

This SAS will supersede:

- SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*,
- SAS No. 1, *Codification of Auditing Standards and Procedures*, section 331, *Inventories*,
- SAS No. 92, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*.

Clarified SAS: Audit Evidence also rescinds SAS No. 12 (AU sec. 337B), and SAS No. 1, section 901, *Public Warehouses—Controls and Auditing Procedures for Goods Held*. This SAS addresses specific considerations by the auditor in obtaining sufficient appropriate audit evidence regarding the valuation of investments in securities and derivative instruments; the existence and condition of inventory; the completeness of litigation, claims, and assessments involving the entity; and the presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

- **Clarified SAS: Special Considerations—*Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks***

Clarified SAS: Special Considerations supersedes AU Section 544, “Lack of Conformity with Generally Accepted Accounting Principles” and certain portions of SAS No. 62, *Special Reports* (AU Sections 544 and 623). This SAS addresses special considerations in the application of those AU sections to an audit of financial statements prepared in accordance with a special purpose framework. A special purpose framework is a cash, tax, regulatory, or contractual basis of accounting. Some of the main elements of the new clarified SAS include the auditor's requirements to evaluate whether the financial statements include informative disclosures, to evaluate whether additional disclosures are necessary for the financial statements to achieve fair presentation, and an explanation of management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

- **Clarified SAS: *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures***

This clarified SAS will supersede SAS No. 57, *Auditing Accounting Estimates and Auditing Fair Value Measurements and Disclosures* (AU Section 342), and SAS No. 101, *Auditing Fair Value Measurements and Disclosures* (AU Section 328). Main elements of the new clarified SAS include definitions of specific terms, the auditor's objective concerning accounting estimates and disclosures, factors that may provide a basis for identifying and assessing the risk of material misstatement of accounting estimates, and other substantive procedures for accounting estimates that give rise to significant risks.

- **Clarified SAS: *Consistency of Financial Statements***

This clarified SAS supersedes SAS No. 1, section 420, *Consistency of Application of Generally Accepted Accounting Principles*, as amended, and SAS No. 58, *Reports on Audited Financial Statements*, paragraphs .16-.17 and .53-.57. This SAS addresses the auditor's evaluation of the consistency of the financial statements between periods, including changes to previously issued financial statements and the effect of that evaluation on the auditor's report on the financial statements. It explicitly states that the auditor should include an emphasis-of-matter paragraph in the auditor's report when there are adjustments to correct a material misstatement in previously issued financial statements. The auditor should include this type of emphasis-of-matter paragraph in the auditor's report when the related financial statements are restated to correct the prior material misstatement.

More information about the Clarity Project is available at www.aicpa.org/ImprovingClarityStandards.

SSARS No. 20, *Revised Applicability of Statements on Standards for Accounting and Review Services* (February 2011)

Relevance to Government Audits: MEDIUM

The Statement on Standards for Accounting and Review Services (SSARS) amends Accounting and Review (AR) section 90, *Review of Financial Statements*, so that the SSARSs do not apply when the provisions of SAS No. 100 (amended by SAS No. 116 and No. 121) apply. This SSARS is effective for reviews of financial statements for periods beginning after December 15, 2011, and early application is permitted.

Regulatory Requirements

OFFICE OF MANAGEMENT AND BUDGET (OMB)

www.whitehouse.gov/omb

 **OMB Memo M-11-16 – Issuance of Revised Parts I and II to Appendix C of OMB Circular No. A-123 (April 14, 2011)**

Relevance to Government Audits: HIGH for federal financial audits

OMB has issued government-wide guidance in Appendix C of OMB Circular A-123 that implements the requirements of the Improper Payments Elimination and Recovery Act of 2010¹ (IPERA). This guidance defines what is considered an improper payment, outlines agency requirements, and describes steps that the agency should follow to determine whether the risk of improper payments is significant. In addition, this guidance provides details of information reporting, outlines the requirement to conduct recapture audits, and addresses the compliance responsibilities of Agencies and the Inspectors General. This updated guidance is effective for agencies to use immediately and for Fiscal Year 2011 reporting.

 **OMB Memo M-11-12 - 2011 Discount Rates for OMB Circular No. A-94**
(February 3, 2011)

Relevance to Government Audits: HIGH for federal financial audits

OMB Circular No. A-94, “*Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*” establishes discount rate guidelines for use in benefit-cost and other types of economic analysis, and specifies that certain discount rates will be updated annually when the interest rate and inflation assumptions in the budget are changed. This memorandum is an update that provides the discount rates in effect for the calendar year 2011. The rates presented do not apply to regulatory analysis or benefit-cost analysis of public investment, but are to be used for lease-purchase and cost-effectiveness analysis as specified in the Circular. For more information, please see the OMB home page at <http://www.whitehouse.gov/omb/>.

All of OMB’s Fiscal Year 2010 memoranda are available at the OMB’s website:
http://www.whitehouse.gov/omb/memoranda_default/

For more information on any of these OMB documents, or to access other OMB circulars, bulletins, and memoranda for this year or previous years, please see the OMB website: <http://www.whitehouse.gov/omb/agency/default/>

¹ Public Law 111-204

Accounting Standards and Guidance

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

www.fasab.gov

 **Financial Reporting Model Task Force Report to the FASAB:
Electronic, Web-Based Financial Reporting** (*December 2010*)
Relevance to Government Audits: MEDIUM

In April 2010, the FASAB established the Financial Reporting Model Task Force (task force) to increase users' access, understanding, and use of financial information in the Consolidated Financial Report (CFR) of the federal government. To help achieve this objective, the task force developed 10 recommendations for the FASAB and its sponsors. These recommendations include moving away from paper-based reporting and adopting an electronic, Web-based reporting method, exploring how to report additional government-wide program performance in the Management's Discussion and Analysis, and establishing a central Web site for federal financial information and informing the public of its availability. The Financial Reporting Model Task Force Report to FASAB is available at the FASAB website:

http://www.fasab.gov/pdffiles/2010dec22_financial_reporting_model_task_force.pdf

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

www.fasb.org

 **Accounting Standards Update No. 2011-03—Transfers and Servicing
(Topic 860): *Reconsideration of Effective Control for Repurchase
Agreements*** (*April 2011*)
Relevance to Government Audits: MEDIUM

The main objective of this Update is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. Topic 860, Transfers and Servicing, prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. The amendments in this Update affect all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity and apply to all entities, both public and nonpublic. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011, and this guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

www.gasb.org

✚ Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (December 2010)

Relevance to Government Audits: MEDIUM

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which do not contradict GASB pronouncements. The requirements in Statement No. 62 will improve financial reporting by contributing to the GASB's efforts to codify all sources of GAAP for state and local governments. It will eliminate the need for financial statement preparers and auditors to determine which pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011, and earlier application is encouraged. Please note that the provisions of this Statement No. 62 generally are required to be applied retroactively for all periods presented. More information about the GASB can be found at its website: www.gasb.org.
