



Memorandum

Date: August 10, 2018

To: GAO's Financial Management and Assurance Team (FMA)
Council of the Inspectors General on Integrity and Efficiency
Financial Audit Community

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Subject: *Professional Standards Update* No. 70, April 2018 through June 2018

In order to alert you to changes in professional standards, we issue *Professional Standards Updates* (PSU). The purpose of these updates is to highlight the issuance and some key points of recent standards.¹ PSUs do not contain a complete summary of the standards. Those affected by a new standard should refer to that standard for details.

¹The scope of this PSU includes standards and related guidance issued from April 2018 through June 2018 to the extent that such materials were publicly available as of June 30, 2018. In preparing this update, we identified certain relevant materials that were issued after June 30, 2018, and we have included them herein.

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Professional Standards Update No. 70

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Auditing and Attestation Standards and Guidance

Government Accountability Office

Government Auditing Standards ([Click here for link](#))

Government Auditing Standards: 2018 Revision (GAO-18-568G) (July 2018)

The professional standards presented the 2018 revision of *Government Auditing Standards* (known as the Yellow Book) provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards, commonly referred to as generally accepted government auditing standards, provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.

The revision contains major changes from, and supersedes, the 2011 revision. Key changes include a new format that differentiates requirements from application guidance, updated independence requirements for auditors who prepare the financial statements of an audited entity, revised peer review requirements for audit organizations, and new guidance to address waste and abuse as defined under government auditing standards.

The 2018 revision of *Government Auditing Standards* is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

American Institute of Certified Public Accountants (AICPA)

Statements on Auditing Standards ([Click here for link](#))

AICPA did not issue statements or other relevant material in the period covered by this *Professional Standards Update*.

Statements on Standards for Attestation Engagements ([Click here for link](#))

AICPA did not issue statements or other relevant material in the period covered by this *Professional Standards Update*.

AICPA Professional Standards ([Click here for link](#))

U.S. Auditing Standards—AICPA (Clarified) [AU-C] (April 2018)

This update revises AU-C section 700, *Audit Conclusions and Reporting*, for conforming changes necessary based on the issuance of Interpretation No. 4, “Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB” of AU-C section 9700, *Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of Section 700*.

Peer Review [PR] (April 2018)

This update revises PR section 9100, *Standards for Performing and Reporting on Peer Review—Interpretations of Section 100*, for various conforming and editorial changes.

U.S. Auditing Standards—AICPA (Clarified) [AU-C] (May 2018)

This update revises AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, and section 930, *Interim Financial Information*, based on the effective date of Statement on Auditing Standards No. 132, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, and also removes AU-C section 570A and the appendix to AU-C section 570.

Auditing and Review Services (Clarified) [AR-C] (May 2018)

This update releases Statement on Standards for Accounting and Review Services (SSARS) No. 24, *Omnibus Statement on Standards for Accounting and Review Services—2018*. This standard creates a new AR-C section titled *Special Considerations—International Reporting Issues* (AR-C sec. 100) and amends AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, and AR-C section 90, *Review of Financial Statements*.

Except for the revision to paragraph No.39 of AR-C section 90, which is effective upon issuance, all revisions are effective for compilations and reviews of financial statements for periods ending on or after June 15, 2019. This update also adds AR-C sections 60A and 90A to retain currently effective guidance until SSARS No. 24 becomes effective.

U.S. Auditing Standards—AICPA (Clarified) [AU-C] (June 2018)

This update amends AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, and AU-C section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*, based on the effective date of Statement on Auditing Standards No. 133, *Auditor Involvement With Exempt Offering Documents* (AU-C sec. 945), and also removes the appendixes to AU-C section 945.

Code of Professional Conduct [ET] (June 2018)

This update amends appendix A, “Council Resolution Designating Bodies to Promulgate Technical Standards,” to reflect readoption by Council of the International Accounting Standards Board section.

Audit Risk Alerts ([Click here for link](#))

Employee Benefit Plans Industry Developments (April 2018)

This alert offers information on a range of topics, such as master trust reporting, cybersecurity, new proposed auditor’s reports, electronic information, limited-scope certification, and a new auditing standard from the Public Company Accounting Oversight Board (PCAOB), PCAOB AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses and Unqualified Opinion*.

Not-for-Profit Entities Industry Developments (April 2018)

This alert includes targeted discussions of current economic, accounting, and auditing issues affecting nonprofits, among other topics. This alert focuses on risks related to recent nonprofit industry trends, financial statement presentation changes, revenue recognition, and fair value issues.

Other Guidance ([Click here for link](#))

Government Auditing Standards and Single Audits (April 2018)

This guide provides up-to-date information and guidance on single audits and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) compliance audit requirements, and includes example auditor reports for both the reporting required under *Government Auditing Standards* and the Uniform Guidance compliance audit.

State and Local Governments (May 2018)

This guide provides coverage of audit and accounting considerations critical for both preparers and auditors. It includes two new schedules: The Governmental Employer Participation in Single-Employer Plans Illustrative Schedule of Pension Amounts and Report and the Illustrative Notes to Schedule of Employer Allocations and Schedule of Pension Amounts. It also provides insights, comparisons, and best practices for financial reporting and the financial reporting entity, revenue and expense recognition, capital asset accounting, the elements of net position, accounting for fair value, municipal securities offerings, and tax abatements.

Regulatory Requirements

Office of Management and Budget (OMB)

Circulars and Guidance - listed only² ([Click here for link](#))

OMB Circular No. A-123: *Management of Reporting and Data Integrity Risk* (Revised June 6, 2018)

OMB Circular No. A-123 Appendix C: *Requirements for Payment Integrity Improvement* (June 26, 2018)

OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget* (June 29, 2018)

²A summary of significant changes in OMB Circular No. A-136 is also provided.

OMB Circular No. A-136: *Financial Reporting Requirements – Revised* (July 30, 2018)

This circular provides guidance for executive branch entities required to submit audited financial statements, interim financial statements, and performance and accountability reports (PAR) or agency financial reports (AFR) under the Chief Financial Officers Act of 1990, as amended; the Government Management Reform Act of 1994; and the Accountability of Tax Dollars Act of 2002. This circular also provides general guidance to government corporations required to submit annual management reports under the Government Corporations Control Act. Significant changes that have occurred since the last revision of Circular A-136 on August 15, 2017, include changes to the following sections:

- I.3 - Entities Subject to this Circular
- II.1.1 - What must an Agency's PAR or AFR contain?
- II.2.5 - Performance Goals, Objectives, and Results
- II.2.7 - Analysis of Systems, Controls, and Legal Compliance
- Former II.3 - Performance Section
- II.3.1 - Instructions for the Annual Financial Statements
- II.3.2 - Questions and Answers, Question 3
- II.3.3.1 - Balance Sheet Introduction
- II.3.3.3 - Assets
- II.3.3.4 - Liabilities
- II.3.4.1 - Statement of Net Cost Introduction
- II.3.4.4 - Earned Revenue
- II.3.5.2 - SCNP Illustrations
- II.3.6 - Statement of Budgetary Resources
- II.3.9.1 - Note 1: Summary of Significant Accounting Policies
- II.3.9.3 - Note 3: Fund Balance with Treasury
- II.3.9.6 - Note 6: Accounts Receivable, Net
- II.3.9.9 - Note 9: Inventory and Related Property, Net
- II.3.9.13 - Note 13: Liabilities Not Covered by Budgetary Resources
- II.3.9.18 - Note 18: Leases
- II.3.9.19 - Note 19: Life Insurance
- II.3.9.20 - Note 20: Commitments and Contingencies
- II.3.9.21 - Note 21: Funds from Dedicated Collections
- II.3.9.30 - Note 31: Undelivered Orders at the End of the Period
- II.3.9.33 - Note 33: Explanation of Differences between the SBR and the Budget
- II.3.9.40 - Note 40: Reconciliation of Net Cost of Operations to Budget
- II.3.9.41 - Note 41: Public-Private Partnerships
- II.3.9.42 - Note 42: Disclosure Entities and Related Parties
- II.3.9.43 - Note 43: Insurance Programs
- II.3.10.4 - RSSI: Research & Development
- II.4.5 - Payment Integrity, Former IPIA (as amended by IPERA and IPERIA) Reporting Details
- Former II.4.9.22 -Note 22: Costs and Exchange Revenue
- III. - Summary of Performance and Financial Information
- Former IV.2 - Submission Schedule [for Interim Financial Statements]
- Current IV.2 - Statements and Variances Required to be Submitted [for Interim Financial Statements]
- Former V.2.5 - Agency Points of Contact [for Government-wide Financial Report]

- V.5 - Written Representation from Management

Memorandums - listed only ([Click here for link](#))

M-18-15: *2018 Strategic Review Guidance* (April 24, 2018)

M-18-16: Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk* (June 6, 2018)

M-18-17: *Gears of Government Awards Program* (June 19, 2018)

M-18-18: *Implementing Statutory Changes to the Micro-Purchase and the Simplified Acquisition Thresholds for Financial Assistance* (June 21, 2018)

M-18-19: *Improving the Management of Federal Programs and Projects through Implementing the Program Management Improvement Accountability Act (PMIAA)* (June 25, 2018)

M-18-20: Appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement* (June 26, 2018)

Bulletins ([Click here for link](#))

OMB Bulletin No. 18-03: *Revised Delineations of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas and Guidance on Uses of the Delineations of These Areas* (April 10, 2018)

Department of the Treasury (Treasury)

Treasury Financial Manual (TFM) ([Click here for link](#))

TFM Volume I, Part 5, Chapter 4100: *Requirements for Using Depositories to Hold Public Money* (April 10, 2018)

This chapter consolidates existing guidance to federal agencies on the requirements for using depositories to hold public money.

TFM Volume I, Part 2, Chapter 4700: *Agency Reporting Requirements for the Financial Report of the United States Government* (May 31, 2018)

This chapter prescribes how agencies provide data for the *Financial Report of the United States Government* using the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and the Governmentwide Financial Reports System. It also includes the Bureau of the Fiscal Service's Closing Package methodology, the Federal Intragovernmental Transactions process, and requirements for submitting the preclosing GTAS Adjusted Trial-Balance.

TFM Volume I, Part 2, Chapter 5100: *Fund Balance with Treasury (FBWT) Accounts* (June 20, 2018)

This chapter prescribes policies and procedures for agencies' Fund Balance with Treasury accounts.

Treasury Bulletins ([Click here for link](#))

Bulletin No. 2018-06: *Federal Account Symbols and Titles (FAST Book) in New Format* (May 23, 2018)

This bulletin notifies agencies that FAST Book is now one book in a new format. FAST Book displays the three-digit agency identifier code for the account lists and displays the two-digit agency identifier code in parentheses after the agency's name for reference. Treasury will no longer feature two books for FAST Book. Agencies may access the FAST Book on the FAST Book website.

Bulletin No. 2018-05: *U.S. Standard General Ledger (USSGL) - A Treasury Financial Manual (TFM) Supplement* (June 6, 2018)

This bulletin revises the USSGL and replaces all previous amendments.

Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB)

Statements, Technical Releases, and Technical Bulletins ([Click here for link](#))

Statement of Federal Financial Accounting Standards (SFFAS) No. 54: *Leases: An Amendment of Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment* (April 17, 2018)

This statement revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's general purpose federal financial reports and includes appropriate disclosures. It also requires that federal lessees recognize a lease liability and a leased asset at the commencement of the lease term, unless the lease meets any of the scope exclusions or the definition/criteria of short-term leases, contracts or agreements that transfer ownership, or intragovernmental leases. A federal lessor would recognize a lease receivable and deferred revenue, unless the lease meets any of the scope exclusions or the definition/criteria of short-term leases, contracts or agreements that transfer ownership, or intragovernmental leases. The requirements of this statement are effective for reporting periods beginning after September 30, 2020. Early adoption is not permitted.

SFFAS No. 55: *Amending Inter-entity Cost Provisions* (May 31, 2018)

This statement revises SFFAS No. 4 to provide for business-type activities to continue to recognize significant inter-entity costs and rescinds the following:

a. SFFAS No. 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*³

b. Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*

With the rescission of SFFAS No. 30, paragraphs 110 and 111 of SFFAS No. 4, as amended, are restored to the language that they contained prior to the issuance of SFFAS No. 30. However, FASAB adjusted the standards to require business-type activities to recognize inter-entity costs. Recognition of inter-entity costs by activities that are not business-type activities is not required with the exception of inter-entity costs for personnel benefits and Treasury Judgment Fund settlements unless otherwise directed by OMB. Notwithstanding the absence of a requirement, non-business-type activities may elect to recognize imputed cost and corresponding imputed financing for other types of inter-entity costs. The requirements of this statement are effective for reporting periods beginning after September 30, 2018. Earlier implementation is permitted.

Financial Accounting Standards Board

Accounting Standards Updates (listed only) ([Click here for link](#))

Accounting Standards Update No. 2018-06: *Codification Improvements to Topic 942, Financial Services—Depository and Lending* (May 2018)

Accounting Standards Update No. 2018-07: *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (June 2018)

Accounting Standards Update No. 2018-08: *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (June 2018)

Government Accounting Standards Board (GASB)

Statements ([Click here for link](#))

GASB Statement No. 89: *Accounting for Interest Cost Incurred before the End of a Construction Period* (June 2018)

The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. It establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5 through 22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the

³Conforming amendments will be made to Technical Release 8, *Clarification of Standards Relating to Inter-Entity Costs*, to acknowledge the rescission of SFFAS No. 30.

period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, and earlier application is encouraged. The requirements of this statement should be applied prospectively.

Internal Audit Guidance

Institute of Internal Auditors (IIA)

Supplemental Guidance ([Click here for link](#))

Auditing Grants in the Public Sector (April 2018)

This guide offers insights from the grantor and the grantee perspectives and includes tools for auditing grants.

Auditing Capital Adequacy and Stress Testing for Banks (May 2018)

This guide is for financial services auditors and any auditor working with statistical models and capital. It focuses on how to provide assurance that an institution is well capitalized to meet the guidelines and that it is prepared for cyclical business changes. This guide helps readers understand, measure, and assess the appropriateness and completeness of an institution's capital planning process.

IIA Implementation Guides ([Click here for link](#))

IIA did not issue any implementation guides in the period covered by this *Professional Standards Update*.