



Memorandum

Date: July 17, 2009

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

From: Steven J. Sebastian, Director - FMA

Subject: Professional Standards Update No. 51*

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 standard for details. Thanks to Louise DiBenedetto, Tom Hackney, Heather Keister, Inna Livits, Theresa Phipps, Frank Synowiec, Abe Akresh, and Gail Vallieres for their contributions to this issue which contains summaries of:

Auditing and Attestation Standards and Guidance

Government Accountability Office (GAO)

- Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagements (*November 2008*)

American Institute of Certified Public Accountants (AICPA)

- Statement on Standards for Attestation Engagements (SSAE) No.15: *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*
- Statement on Auditing Standards (SAS) No.115: *Communicating Internal Control Related Matters Identified in an Audit*
- AT Section 9101: *Attest Engagements—Interpretation of Section 101, Interpretation No 7: Reporting on the Design of Internal Control*
- AU Section 9330: *The Confirmation Process: Auditing Interpretations of AU Section 330*
- 2008 Audit Risk Alert: *Government Auditing Standards and Circular A-133 Audits Strengthening Audit Integrity – Safeguarding Financial and Compliance Reporting*
- Component Materiality for Group Audits (*Journal of Accountancy, December 2008*)

International Auditing and Assurance Standards Board (IAASB)

- Clarity Project Summary

Institute of Internal Auditors (IIA)

- Professional Guidance: *Government Auditing Standards and International Professional Practices Framework – A Comparison*
- International Professional Practices Framework (IPPF)
- Quality Assessment Manual

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

Public Company Accounting Oversight Board (PCAOB)

- Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment*
- Staff Audit Practice Alert No. 4, *Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments*

Center for Audit Quality

- Practice Aid on Testing Journal Entries

Regulatory Requirements

Office of Management and Budget (OMB)

- OMB Circular A-133 Compliance Supplement
- OMB Circular A-136 Financial Reporting Requirements
- OMB Bulletin 07-04 Audit Requirements for Federal Financial Statements, FY 2009 Technical Amendments

Department of the Treasury

- Treasury Financial Manual (TFM) Part 2 – Chapter 4700 – *Agency Requirements For The Financial Report of the United States Government*

Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB)

- Statement No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*

Financial Accounting Standards Board (FASB)

- Statement No. 164, *Not-for-Profit entities: Mergers and Acquisitions including an amendment of FASB statement No. 142*
- Statement No. 165, *Subsequent Events*
- Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*
- Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*
- Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 Accounting Standards Codification*

Governmental Accounting Standards Board (GASB)

- Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*
- Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting – An Amendment to GASB Concepts Statement No. 2*

Other Guidance

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- Guidance on Monitoring Internal Control Systems

Auditing and Attestation Standards and Guidance

Government Accountability Office (GAO)

www.gao.gov

Interim Guidance on Reporting Deficiencies in Internal Control for GAGAS Financial Audits and Attestation Engagements (*November 2008*)

On November 18, 2008, the GAO issued and posted to the Yellow Book web page interim guidance on reporting deficiencies in internal control for Yellow Book engagements in conjunction with the adoption of SAS 115 and/or SSAE 15. The GAO interim guidance becomes effective concurrent with the auditor's implementation of SAS 115 and/or SSAE 15 and may change with the next revision of the Yellow Book. Following is a summary of the GAO interim guidance for complying with the internal control reporting requirements of the Yellow Book:

- Auditors may satisfy the internal control reporting requirements (GAGAS 5.11) by including all identified "material weaknesses" and "significant deficiencies" following the new definitions and requirements from SAS 115 and SSAE 15, providing those definitions, and describing the scope of testing performed on the entity's internal control over financial reporting.
- Auditors are reminded to comply with all other relevant Yellow Book requirements related to reporting deficiencies in internal control.

The Interim Guidance is posted at

<http://www.gao.gov/govaud/icguidance0811.pdf>

American Institute of Certified Public Accountants (AICPA)

www.aicpa.org

Statement on Standards for Attestation Engagements (SSAE) No.15: *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements (October 2008)*

SSAE No. 15 (1) establishes standards and provides guidance to practitioners performing an examination of internal control over financial reporting (internal control) in the context of an integrated audit (an audit of an entity's financial statements and an examination of its internal control); (2) supersedes currently existing (extant) AT section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*; and (3) converges the standards practitioners use for reporting on a non-issuer's internal control with Public Company Accounting Oversight Board Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*.

Some of the changes introduced by SSAE No. 15 are

- revising the scope of AT section 501 to make it applicable only to examinations of the design and operating effectiveness of an entity's internal control that are integrated with an audit of the entity's financial statements. AT section 501 would no longer be applicable to examinations of:
 - the design and operating effectiveness of an entity's internal control if the financial statements are not also being audited.
 - only the suitability of the design of an entity's internal control. (Such engagements may be developed and performed under AT section 101, Attest Engagements. An interpretation of AT section 101 on reporting on the design of internal control is currently being developed.)
- requiring management's written assertion about the effectiveness of the entity's internal control to accompany the practitioner's report.

- revising the definitions of the terms material weakness and significant deficiency:
 - A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility¹ that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
 - A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- revising the list of deficiencies in internal control that are indicators of material weaknesses to include:
 - identification of fraud, whether or not material, on the part of senior management;
 - restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
 - identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
 - ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- eliminating the list of deficiencies that ordinarily would be considered at least significant deficiencies.
- expanding the guidance on:
 - determining the locations or business units at which to perform tests of controls when an entity has multiple locations; and
 - evaluating the extent to which the practitioner may use the work of others.
- introducing the following topics:
 - scaling the examination for smaller, less complex entities;
 - incorporating the results of the auditor's fraud risk assessment performed in the audit of the entity's financial statements into planning and performing the examination of internal control;
 - using a top-down approach to identify the most important controls to test;
 - the effect of an entity's use of a service organization on the practitioner's examination of internal control;
 - evaluating the period-end financial reporting process; and
 - using a benchmarking strategy for entirely automated application controls.

This SSAE is effective for integrated audits for periods ending on or after December 15, 2008. For more information, please see the SSAE #15 Summary at

http://www.aicpa.org/download/members/Div/auditstd/Summary_SSAE_No15.pdf

and at

http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Authoritative+Standards+and+Related+Guidance+for+Non-Issuers/auditing_standards.htm

¹ In this SSAE, a reasonable possibility exists when the likelihood of the event is either *reasonably possible* or *probable* as those terms are used in Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

Statement on Auditing Standards (SAS) No. 115: *Communicating Internal Control Related Matters Identified in an Audit (October 2008)*

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. SAS No. 115 supersedes SAS No. 112 of the same title and was issued to eliminate differences within the AICPA's Audit and Attest Standards resulting from the issuance of Statement on Standards for Attestation Engagements (SSAE) No. 15. SAS No. 115 contains the revised definitions of the terms material weakness and significant deficiency, revises the list of deficiencies in internal control that are indicators of material weaknesses, no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies, and contains a revised illustrative written communication to management and those charged with governance of material weaknesses and significant deficiencies. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009, but allows for early implementation. For more information, please see the SAS #115 Summary at http://www.aicpa.org/download/members/Div/auditstd/Summary_SAS_No115.pdf and at

http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Authoritative+Standards+and+Related+Guidance+for+Non-Issuers/auditing_standards.htm

AT Section 9101: *Attest Engagements—Interpretations of Section 101, Interpretation No 7: Reporting on the Design of Internal Control (December 2008)*

Auditing Interpretations of Statements on Auditing Standards (SASs) are recommendations on the application of the SASs in specific circumstances and are issued under the authority of the Auditing Standards Board (ASB). In its December 2008 Interpretation No. 7 of AT Section 101: Attest Engagements, "Reporting on the Design of Internal Control" ASB made the following conclusions:

- An auditor may not issue a report on the suitability of the design of internal controls based on the auditor's risk assessment procedures applied in the performance of the audit of the entity's financial statements. Such risk assessment procedures are designed to gain a sufficient understanding of an entity and its environment, including internal controls, to plan and perform audit procedures. These procedures do not provide a sufficient basis for reporting on the suitability of the design of an entity's internal controls.
- A practitioner may, however, perform an examination under either AT Section 101 (Attest Engagements) or AT 201 (Agreed Upon Procedures) related to management's written assertion about the suitability of the design of an entity's internal control. If the engagement is structured as an agreed-upon procedures engagement, certain portions of AT section 601 (Compliance Attestation) should also be complied with. The Interpretation provides an example of report language that could be provided in connection with these engagements.

For more information, please see the Interpretation No. 7 at http://www.aicpa.org/download/auditstd/Interpretation_No_7.pdf and at http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Authoritative+Standards+and+Related+Guidance+for+Non-Issuers/auditing_standards.htm

AU Section 9330: *The Confirmation Process: Auditing Interpretations of AU Section 330 (Revised November 2008)*

Auditors are increasingly using electronic means to confirm balances. To rely on an electronic confirmation process, auditors need to be satisfied with the integrity of the process and the effectiveness of the service provider's controls over the process. The Auditing Standards Board (ASB) recently issued a revised *AU Section 9330, The Confirmation Process: Auditing Interpretations of AU Section 330*, which states that electronic confirmations may be used in the confirmation process. It also provides guidance on the risks associated with the use of electronic confirmations, including:

- The confirmation response might not be from the proper source.
- A respondent might not be knowledgeable about the information to confirm.
- The integrity of the transmission might have been compromised.

For more information, please see the AU Section 9330 at

http://www.aicpa.org/download/auditstd/AU_9330_110308.pdf and at http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Authoritative+Standards+and+Related+Guidance+for+Non-Issuers/auditing_standards.htm

2008 Audit Risk Alert: *Government Auditing Standards and Circular A-133 Audits Strengthening Audit Integrity – Safeguarding Financial and Compliance Reporting (Updated August 2008)*

This Audit Risk Alert is intended to provide auditors who perform audits under *Government Auditing Standards* or OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, with an overview of recent technical, regulatory, and professional developments that may affect their audits. This alert also delivers information about emerging practice issues and current auditing and regulatory developments such as:

- Redesign of the Federal Financial Report by OMB;
- Common deficiencies found in peer reviews;
- Common violations found in ethics investigations; and
- SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.

Ordering information for this Audit Risk Alert can be obtained through the AICPA website (www.aicpa.org). *Note: This publication is an “other auditing publication” as defined in AU section 150. It has no authoritative status, but may help auditors understand and apply the SASs.*

Journal of Accountancy

<http://www.journalofaccountancy.com>

Component Materiality for Group Audits² (December 2008)

by Steven M. Glover, Douglas F. Prawitt, Jonathan T. Liljegren, William F. Messier Jr. A group audit is performed on an entity with multiple locations or components with separately audited financial information included in consolidated or group financial

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statements. Regulator inspections and some firm quality reviews have revealed a variety of methods used by group engagement partners in determining group materiality and materiality levels for individual components and have identified potentially troubling matters with some of the current approaches to determining overall group materiality and materiality levels for individual components. This article in the December 2008 issue of the *Journal of Accountancy* outlines a practical approach that group engagement partners can consider in establishing or evaluating component materiality. This approach includes guidance on factors such as determining group overall materiality and appropriate materiality levels for the individual components.

For more information, please see the full article at link below:

<http://www.journalofaccountancy.com/Issues/2008/Dec/ComponentMaterialityforGroupAudits.htm>

International Auditing and Assurance Standards Board (IAASB) <http://www.ifac.org>
Clarity Project Summary

The International Auditing and Assurance Standards Board (IAASB) is a standard-setting body designated by and operating independently under the International Federation of Accountants (IFAC). In 2004, the IAASB began a comprehensive program to enhance the clarity of its International Standards on Auditing (ISAs). On February 27, 2009, the Clarity Project reached its completion when the Public Interest Oversight Board approved the due process for the last several clarified ISAs. The IAASB has agreed, subject to any unforeseen circumstances, to not issue any additional auditing standards that would become effective in the next two years. This responds to requests the IAASB has received from stakeholders for a period of stability in the standards, as jurisdictions focus on the task of implementing the clarified ISAs and redrafted International Standard on Quality Control (ISQC) 1.

Auditors worldwide will now have access to 36 newly updated and clarified ISAs and a clarified ISQC. Please see <http://www.ifac.org/Store/>. All clarified ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. For information on IAASB's clarity project, please see <http://web.ifac.org/clarity-center/index>

Institute of Internal Auditors (IIA) www.theiia.org
Professional Guidance: *Government Auditing Standards and International Professional Practices Framework – A Comparison*

The IIA and GAO have recently collaborated on a guidance document that compares Government Auditing Standards (the Yellow Book) and the IIA standards included in the IPPF (the Red Book). The Comparison document was released in May 2009, and is available at <http://www.theiia.org/download.cfm?file=39377>. Some government audit organizations conduct audits that comply with both the Red Book and the Yellow Book. In addition, some organizations have expressed an interest in adopting audit standards issued by both organizations and would benefit from some practical guidance on how to address differences in standards. The auditing standards of the IIA are often implemented along with the performance audit requirements of the Yellow Book, which are contained in Chapters 1 through 3, and 7 and 8. While the

Yellow Book is used for conducting government audits by both external and internal audit organizations, it does contain some specific requirements and guidance related to internal auditors and internal audit organizations. The purpose of the Comparison document is to identify similar principles and key differences between each organization's standards and to provide suggestions for consideration should a government internal audit organization be required to or elect to comply with both organizations' standards in conducting audit work. The guidance discusses 12 issues pertaining to key differences between the standards and provides suggestions for complying with both sets of standards. In addition, an appendix to the Comparison provides a table containing a standard-by-standard comparison.

International Professional Practices Framework (IPPF)

The Institute of Internal Auditors (IIA) released the International Professional Practices Framework (IPPF) in January 2009. The IPPF replaced the previous Professional Practices Framework. As the conceptual framework that organizes guidance promulgated by the IIA, the IPPF's scope has been narrowed to include only authoritative guidance developed by IIA international technical committees following appropriate due process. The guidance is available on the IIA website at <http://theiia.org/guidance/standards-and-guidance/>

Quality Assessment Manual

The IIA released an updated version of its Quality Assessment Manual in March 2009 to align it with the revised IPPF. The Manual is available for purchase on CD-ROM or hardcopy at <http://www.theiia.org/bookstore/product/quality-assessment-manual-6th-edition-1392.cfm>.

Public Company Accounting Oversight Board (PCAOB)

www.pcaob.org

Staff Audit Practice Alert No. 3, *Audit Considerations in the Current Economic Environment (December 2008)*

PCAOB Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. PCAOB Staff Audit Practice Alert No. 3 addresses:

- 1) Overall audit considerations;
- 2) Auditing fair value measurements;
- 3) Auditing accounting estimates;
- 4) Auditing the adequacy of disclosures;
- 5) Auditor's consideration of the entity's ability to continue as a going concern;
- 6) Additional audit considerations for selected reporting areas including: consolidation, contingencies and guarantees, derivatives, goodwill, intangible assets, and other long-lived assets.

The complete Staff Audit Practice Alert No.3 can be found at PCAOB's website:

http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2008/12-05_APA_3.pdf

Staff Audit Practice Alert No. 4, *Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments (April 2009)*
This alert was issued to inform auditors of the potential implications on reviews of interim financial information and on annual audits of three recent FASB staff positions: FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (http://fasb.org/pdf/fsp_fas157-4.pdf); FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (http://fasb.org/pdf/fsp_fas115-2andfas124-2.pdf); and FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (http://fasb.org/pdf/fsp_fas107-1andapb28-1.pdf). This alert addresses the following topics: (1) reviews of interim financial statements; (2) audits of financial statements; including integrated audits; (3) disclosures; and (4) auditor reporting considerations. The complete Staff Audit Practice Alert No.4 can be found at PCAOB's website: http://www.pcaobus.org/Standards/Staff_Questions_and_Answers/2009/04-21_APA_4.pdf

Center for Audit Quality <http://www.thecaq.org>
Practice Aid on Testing Journal Entries (December 2008)
The Center for Audit Quality (CAQ), created to serve investors, public company auditors and the markets, has issued a practice aid on testing journal entries. This non-authoritative document specifically addresses gaining an understanding of internal controls over journal entries; selecting journal entries for testing, including the use of computer-assisted audit techniques; evaluating journal entries; and documenting the results of testing.
For more information, please see the full article at link:
<http://www.thecaq.org/members/pdfs/CAQJETestingPracticeAid12082008.pdf>

Regulatory Requirements

Office of Management and Budget (OMB) www.whitehouse.gov/omb
OMB Circular A-133 Compliance Supplement
The Office of Management and Budget (OMB) recently released the 2009 edition of the OMB Circular A-133 Compliance Supplement (Compliance Supplement). The Compliance Supplement is used by auditors performing OMB Circular A-133 audits (i.e., single audits or program-specific audits) of nonprofit organizations and governments to determine compliance requirements and suggested audit procedures to apply when testing major federal award programs. The March 2009 Compliance Supplement supersedes the March 2008 Compliance Supplement and is effective for audits of fiscal years beginning after June 30, 2008 (ending June 30, 2009 or later). The 2009 edition of the Compliance Supplement also includes OMB's initial guidance to auditors on the impact of the American Recovery and Reinvestment Act of 2009 in Appendix VII, and provides some guidance on how auditors may identify the types of compliance requirements to test for Recovery Act awards. The 2009 Compliance Supplement is available at OMB's website at www.whitehouse.gov/omb/grants_circulars

OMB Circular A-136 Financial Reporting Requirements

This Circular establishes a central point of reference for all Federal financial reporting guidance for Executive Branch departments, agencies, and entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PAR) under the Chief Financial Officers Act of 1990, the Accountability of Tax Dollars Act of 2002, and Annual Management Reports under the Government Corporations Control Act. Section I of the guidance covers superseded guidance and a summary of significant changes. The circular was issued on June 10, 2009 and is effective in its entirety beginning 3rd Quarter Fiscal Year 2009, unless otherwise specified. For more information, please see the Circular at <http://www.whitehouse.gov/omb/asset.aspx?AssetId=1372>

OMB Bulletin 07-04 Audit Requirements for Federal Financial Statements, FY 2009 Technical Amendments

Similar to fiscal year 2008, OMB will be issuing a FY 2009 technical amendment to OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, dated September 4, 2007. Bulletin No. 07-04, establishes minimum requirements for audits of federal financial statements. Upon issuance, an “as-revised” version of the amended Bulletin 07-04 will be available on OMB’s website at www.whitehouse.gov/omb/bulletins_default/

Department of the Treasury (Treasury) <http://www.treasury.gov/>
Treasury Financial Manual (TFM) Part 2 – Chapter 4700 – *Agency Requirements For The Financial Report of the United States Government*

The Secretary of the Treasury, in coordination with the Director of OMB, is required annually to submit financial statements for the U.S. government to the President and the Congress. GAO is required to audit these statements. To assist the Department of the Treasury (Treasury) with the preparation of the *Financial Report of the United States Government (Financial Report)*, agencies must provide Treasury’s Financial Management Service (FMS) with required fiscal year-end data. TFM Part 2 – Chapter 4700 describes how agencies provide data for the *Financial Report* using the Governmentwide Financial Report System and the Federal Agencies Centralized Trial Balance System. Information regarding FMS’ governmentwide closing process, including intragovernmental activity is also provided.

The revised TFM Part 2 – Chapter 4700 was released on May 29, 2009, effective immediately and is available at <http://www.fms.treas.gov/tfm/vol1/v1p2c470.html>.

Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB) <http://fasab.gov>
Statement No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, (October 2008)*

This Statement applies to federal entities that report liabilities and expenses for federal employee pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB) in general purpose financial reports. It requires gains

and losses from changes in long-term assumptions used to estimate federal employee pension, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs, and provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities. Further, it requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in notes to the financial statements, and provides a standard for selecting the valuation date for estimates of federal employee pension, ORB, and OPEB liabilities.

This Statement is effective for fiscal years beginning after September 30, 2009 and is available at <http://fasab.gov>.

Financial Accounting Standards Board (FASB) <http://www.fasb.org>
Statement No. 164, *Not-for-Profit entities: Mergers and Acquisitions including an amendment of FASB statement No. 142 (April 2009)*

This Statement provides guidance on accounting for a combination of not-for-profit entities, which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. This Statement applies prospectively to:

- Mergers for which the merger date is on or after the beginning of an initial reporting period beginning on or after December 15, 2009.
- Acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2009.

This Statement applies to both annual and interim periods after its effective date. Earlier application is prohibited.

Statement No. 165, *Subsequent Events (May 2009)*

This Statement takes standards for subsequent events, previously in auditing standards (AU 560), and moves them to accounting standards.

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events:

- a. Events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (recognized subsequent events).
- b. Events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date (Non-recognized subsequent events).

This Statement introduces the concept of financial statements being *available to be issued*. It requires disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The Statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively.

Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140 (June 2009)*

This Statement removes the concept of a qualifying special-purpose entity from Statement 140 and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, to qualifying special-purpose entities. It eliminates (1) the exceptions for qualifying special-purpose entities from the consolidation guidance and (2) the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. Under this Statement, many types of transferred financial assets that would have been derecognized previously are no longer eligible for derecognition. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

Statement No. 167, *Amendments to FASB Interpretation No. 46(R) (June 2009)*

The Board's objective in issuing this Statement is to improve financial reporting by enterprises involved with variable interest entities. This Statement amends Interpretation 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics:

- a. The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance.
- b. The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

This Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited.

Statements 164-167 are posted at <http://www.fasb.org>

Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 (June 2009)*

The FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is

effective for financial statements issued for interim and annual periods ending after September 15, 2009. Following this Statement, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The Board will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. Statement 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding Statement 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, this Statement replaces Statement 162 to indicate this change to the GAAP hierarchy.

The Codification is the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP); all other accounting literature not included in the Codification will be considered nonauthoritative. To prepare constituents for the change, the FASB has provided an online tutorial available on the Codification website at <http://asc.fasb.org> as well as other training resources. The Codification reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. It also includes relevant Securities and Exchange Commission (SEC) guidance.

The Codification codifies all standards issued by a standard-setter within levels A through D of the pre-Codification GAAP hierarchy, as follows:
Financial Accounting Standards Board (FASB)

- Statements (FAS)
- Interpretations (FIN)
- Technical Bulletins (FTB)
- Staff Positions (FSP)
- Staff Implementation Guides (Q&A)

Emerging Issues Task Force (EITF)

- Abstracts
- Appendix D Topics

Derivative Implementation Group (DIG) Issues

Accounting Principles Board (APB) Opinions

Accounting Research Bulletins (ARB)

Accounting Interpretations (AIN)

American Institute of Certified Public Accountants (AICPA)

- Statements of Position (SOP)

- Audit and Accounting Guides (AAG)—only incremental accounting guidance
- Practice Bulletins (PB)
- Technical Inquiry Service (TIS)—only for Software Revenue Recognition.

More information about the Codification and other topics is located at www.fasb.org.

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Governmental Accounting Standards Board (GASB) <http://www.gasb.org>
Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (March 2009)*

This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *non-spendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement is effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (March 2009)*

This Statement incorporates the hierarchy of GAAP for state and local governments into GASB's authoritative literature. Prior to the Statement, the GAAP hierarchy was set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. Effective date: Effective upon issuance—March 2009

Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (March 2009)*

This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses

three issues not included in the authoritative literature that establishes *accounting* principles—1) related party transactions, 2) going concern considerations, and 3) subsequent events.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. Effective date: Effective upon issuance

Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting – An Amendment to GASB Concepts Statement No. 2 (November 2008)*

The Board issued Concepts Statement No. 5 to reflect developments that have occurred since it was issued in 1994. For an entire version of the Concepts Statement, see the *Codification of Governmental Accounting and Financial Reporting Standards*, Appendix B, GASB Concepts Statement No. 2, *Service Efforts and Accomplishments Reporting*, as amended.

Summaries of the GASB statements are posted at <http://www.gasb.org/st/index.html>

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Other Guidance

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

<http://www.coso.org>

Guidance on Monitoring Internal Control Systems (*January 2009*)

COSO's Guidance on Monitoring Internal Control Systems (COSO's Monitoring Guidance) was developed to clarify the monitoring component of internal control.

This monitoring guidance may be especially relevant in audits of internal control over financial reporting in the federal government. In particular, it may be helpful in auditing controls for the interim period between the entity's 6/30/2009 A-123 report and its 9/30/09 fiscal year-end, as it contains guidance on when auditors can rely on controls that existed at 6/30/2009 and when auditors may need to perform additional testing for the 7/1/09-9/30/09 interim period.

COSO's Monitoring Guidance encompasses three volumes. Volume I presents the fundamental principles of effective monitoring and develops the linkage to the COSO Framework. Volume II conveys in greater detail the principles outlined in Volume I and provides guidance to those responsible for implementing effective monitoring. Volume III contains examples of effective monitoring. For more information, please see the COSO website (<http://www.coso.org>).
