



# Memorandum

**Date:** November 27, 2015

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

**From:** James R. Dalkin, Director, FMA  
Eric Holbrook, Gregory Ziombra, Vincent Gomes

**Subject:** Professional Standards Update No. 63, June 2015 through October 2015

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 a new standard should refer to that standard for details.

(This page is intentionally left blank.)

# Professional Standards Update Number 63

## Table of Contents

### **Auditing and Attestation Standards and Guidance**

American Institute of Certified Public Accountants	
Statements on Auditing Standards .....	4
Audit and Accounting Guides .....	4
Interpretations.....	4
Other Guidance .....	4
 Institute of Internal Auditors	
Implementation Guides.....	5

### **Risk Management Guidance**

Government Accountability Office	
<i>A Framework for Managing Fraud Risks in Federal Programs</i> .....	5
 Committee on Sponsoring Organizations of the Treadway Commission	
<i>Leveraging COSO Across the Three Lines of Defense</i> .....	5

### **Regulatory Requirements**

Office of Management and Budget	
2015 <i>Circular A-133 Compliance Supplement</i> .....	6
2015 <i>Circular A-11, Preparation, Submission, and Execution of the Budget</i> .....	6
2015 <i>Circular A-136, Financial Reporting Requirements</i> .....	6
 Department of the Treasury	
Treasury Financial Manual .....	6
Treasury Bulletins.....	7

### **Accounting Standards and Guidance**

Financial Accounting Standards Board	
Accounting Standards Updates (List only) .....	8
 Government Accounting Standards Board	
Statement No. 73, <i>Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68</i> .....	8
Statement No. 74, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i> .....	8
Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> .....	9
Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i> .....	9
Statement No. 77, <i>Tax Abatement Disclosures</i> .....	9

## **Auditing and Attestation Standards and Guidance**

### **American Institute of Certified Public Accountants (AICPA)**

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

SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (October 2015)

The Auditing Standards Board concluded that because engagements performed under AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, as well as related Attestation Interpretation No.1, *Reporting Under Section 112 of the Federal Deposit Insurance Corporation Improvement Act*, are required to be integrated with an audit of financial statements, it is appropriate to move the content of AT section 501 from the attestation standards into generally accepted auditing standards. This SAS is effective for integrated audits for periods ending on or after December 15, 2016. AT section 501 and the related attestation interpretation will be withdrawn when SAS No. 130 becomes effective.

#### **AICPA Audit and Accounting Guides ([Click here for link](#))**

*Audit and Accounting Guide: Life and Health Insurance Entities* (August 2015)

This guide (1) identifies certain requirements set forth in the Financial Accounting Standards Board's (FASB) *Accounting Standards Codification*; (2) describes the Financial Reporting Executive Committee's (FinRec) understanding of prevalent or sole industry practice concerning certain issues; (3) identifies certain other, but not necessarily all, industry practices concerning certain accounting issues without expressing FinRec's views on them; and (4) provides guidance that has been supported by FinRec on the accounting, reporting, or disclosure treatment of transactions or events that are not set forth in FASB's *Accounting Standards Codification*.

#### **AICPA Interpretations ([Click here for link](#))**

*Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of AU-C Section 700* (October 2015)

This interpretation relates to whether an auditor, in accordance with generally accepted auditing standards, may report on the statement of long-term fiscal projections, the statement of social insurance, and the statement of changes in social insurance amounts as required by the Federal Accounting Standards Advisory Board. The interpretation concludes that an auditor may report on these basic financial statements and includes an illustration of the auditor's report.

#### **AICPA: Other Guidance ([Click here for link](#))**

*Audit and Accounting Manual* (Updated as of June 2015)

This update provides information on SAS No. 128, *Using the Work of Internal Auditors*, and Accounting Standards Update No. 2014-15, *Presentation of Financial Statement – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*.

## **Institute of Internal Auditors (IIA)**

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

#### *Implementation Guide 1000: Purpose, Authority, and Responsibility (July 2015)*

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing, the Code of Ethics, and the Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

#### *Implementation Guide 2110: Governance (July 2015)*

The internal audit activity must assess and make appropriate recommendations for improving the governance process in accomplishing the following objectives: (1) promoting appropriate ethics and values within the organization; (2) ensuring effective organizational performance management and accountability; (3) communicating risk and control information to appropriate areas of the organization; and (4) coordinating the activities of and communicating information among the board, external and internal auditors, and management.

## **Risk Management Guidance**

### **Government Accountability Office (GAO)**

#### *A Framework for Managing Fraud Risks in Federal Programs (July 2015) ([Click here for link](#))*

The framework describes leading practices managers can use to strategically manage fraud risks. It organizes these practices into a conceptual framework with four overarching themes: (1) creating a structure and culture conducive to combating fraud; (2) planning regular fraud risk assessments; (3) designing and implementing a strategy to mitigate fraud risks; and (4) evaluating outcomes and adapting activities, as needed, to improve fraud risk management. The framework provides guidance that complements other federal efforts pertaining to fraud risk management, such as the *Standards for Internal Control in the Federal Government*; guidance promulgated by the Office of Management and Budget to report, reduce, and recover improper payments; and the Improper Payments Elimination and Recovery Improvement Act of 2012.

### **Committee on Sponsoring Organizations of the Treadway Commission (COSO)**

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

#### *Leveraging COSO Across the Three Lines of Defense (July 2015)*

The Three Lines of Defense (the Model) addresses how specific duties related to risk and control could be assigned and coordinated within an organization, regardless of its size or complexity. The three lines of defense are (1) management controls and internal control measures; (2) financial control, security, risk management, quality, inspection, and compliance;

and (3) internal audit. Directors and management should understand the critical differences in roles and responsibilities of these duties and how they should be optimally assigned for the organization to have an increased likelihood of achieving its objectives. In particular, the Model clarifies the difference and relationship between the organization's assurance and other monitoring activities, activities that can be misunderstood if not clearly defined.

## **Regulatory Requirements**

### **Office of Management and Budget (OMB)**

#### **Circulars and Guidance** ([Click here for link](#))

*2015 OMB Circular A-133 Compliance Supplement* (June 2015)

This supplement identifies existing important compliance requirements that the federal government expects to be considered as part of an audit required by the Single Audit Act Amendments of 1996. The *Compliance Supplement* is revised annually.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget* (revised June 2015)

OMB Circular A-11 provides guidance to agencies for the preparation, submission, and execution of agency budgets.

OMB Circular A-136, *Financial Reporting Requirements* (revised August 2015)

The revisions to OMB Circular A-136 update existing OMB guidance for agency and government-wide financial reporting.

### **Department of the Treasury (Treasury)**

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

TFM, Volume 1, Part 2, Chapter 4300, *Reporting Instructions for Accounts Invested in Department of the Treasury Securities* (June 2015)

This chapter provides detailed reporting instructions for disclosing principal, premium, discount, inflation compensation, and earned interest on accounts invested in Treasury securities. Agencies use these instructions for reporting security transactions on the Statement of Transactions, when reconciling their Governmentwide Accounting Account Statement, or both.

TFM, Volume 1, Part 6, Chapter 4000, *Intra-Governmental Payment and Collection (IPAC) System* (July 2015)

This chapter prescribes procedures agencies use to process intragovernmental expenditure transactions through IPAC, an Internet-based collection and payment system. It also presents a general overview of IPAC system requirements and certain technical specifications established by Treasury's Bureau of the Fiscal Service.

TFM, Volume I, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government* (July 2015)

This chapter describes how agencies provide data for the *Financial Report of the United States Government* using the Governmentwide Financial Report System and Governmentwide Treasury Account Symbol Adjusted Trial Balance System. It also includes the Bureau of the Fiscal Service Closing Package methodology, the Federal Intragovernmental Transactions process, and requirements for electronically submitting preclosing adjusted trial balances.

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

Treasury Bulletin No. 2015-06, *Transmittal Letter No. S2 15-01, U.S. Government Standard General Ledger (USSGL) – A Treasury Financial Manual (TFM) Supplement* (June 2015)

This transmittal letter revises the *U.S. Government Standard General Ledger* TFM and replaces all previous amendments.

Treasury Bulletin No. 2015-07, *2015 Year-End Closing Bulletin* (July 2015)

This bulletin provides agencies with the guidance for preparing year-end closing reports and other financial reports. It also contains the deadlines by which agencies must submit fiscal year 2015 financial data to Treasury for timely certification and reporting.

Treasury Bulletin No. 2015-08, *Using the Prior-Year Adjustment Attribute Required by the Governmentwide Treasury Account Symbol Adjusted Trial-Balance System (GTAS) for Reporting, Submitting and Tracking Treasury Backdated Documents* (July 2015)

This bulletin reminds federal program agencies that they must use a *U.S. Standard General Ledger* attribute when submitting GTAS trial balances that Treasury and OMB use to produce budget execution reports. In addition, this bulletin provides guidance for processing prior-year backdated transactions using OMB's Backdated Treasury Document Request MAX community page.

Treasury Bulletin No. 2015-10, *Change to Transmittal Letter No. S2 15-01, U.S. Government Standard General Ledger (USSGL) – A Treasury Financial Manual (TFM) Supplement* (September 2015)

The changes specified in this bulletin include changes to (1) chart of accounts, (2) accounts and definitions, (3) account transactions, (4) account attributes for USSGL proprietary account and budgetary account reporting, and crosswalks to standard external reports for fiscal 2015 reporting.

Treasury Bulletin No. 2016-01, *Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700 Interim Updates – Part A: Accrued Interest Payable/Interest Receivable, Part B: Intragovernmental Capital Asset Buy/Sell Transactions, and Part C: General Fund Reporting* (October 2015)

This bulletin serves as interim implementation guidance for departments and agencies until TFM volume I, part 2, chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, is updated to reflect these changes.

## **Accounting Standards and Guidance**

### **Financial Accounting Standards Board**

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

Accounting Standards Update No. 2015-10, *Technical Corrections and Improvements* (June 2015)

Accounting Standards Update No. 2015-11, *Inventory (Topic 330)* (July 2015)

Accounting Standards Update No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965)* (July 2015)

Accounting Standards Update No. 2015-13, *Derivatives and Hedging (Topic 815)* (August 2015)

Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606)* (August 2015)

Accounting Standards Update No. 2015-15, *Interest – Imputation of Interest (Subtopic 835-30)* (August 2015)

Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805)* (September 2015)

### **Government Accounting Standards Board (GASB)**

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

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (June 2015)

The requirements of this statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans and are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (June 2015)

The scope of this statement includes other postemployment benefit (OPEB) plans—defined benefit and defined contribution—administered through trusts that meet certain criteria specified in the statement. The statement also includes requirements to address financial reporting for assets accumulated to provide defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

*Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (June 2015)*

The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

*Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (June 2015)*

The objective of this statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

*Statement No. 77, Tax Abatement Disclosures (August 2015)*

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) abatement agreements that are entered into by other governments and that reduce the reporting government's tax revenues.