



Memorandum

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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. 64*, November 2015 through March 2016

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.

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Professional Standards Update Number 64

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Auditing and Attestation Standards and Guidance

American Institute of Certified Public Accountants (AICPA)

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

SAS No. 131, *Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements* (January 2016)

The Auditing Standards Board issued this amendment to clarify the format of the auditor's report to be issued when an audit is conducted in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB), but the audit is not under the jurisdiction of the PCAOB. An audit is "under the jurisdiction of the PCAOB" if, to perform that audit, the auditor is required to be registered with, and subject to inspection by, the PCAOB. This is required of auditors of certain entities, including issuers and nonissuer brokers and dealers registered with the Securities and Exchange Commission. When the audit is under the jurisdiction of the PCAOB, the AICPA Code of Professional Conduct requires members to conduct the audit in accordance with PCAOB's standards, and the audit is not required to also be conducted in accordance with generally accepted auditing standards (GAAS).

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

Review of Financial Statements: Accounting and Review Services Interpretation of AR-C Section 90 (February 2016)

This interpretation relates to whether a practitioner, in complying with AR-C section 90, *Review of Financial Statements*, which requires a statement that the accountant's responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the AICPA, may also indicate that the review was conducted in accordance with ISRE 2400 (Revised), issued by the International Auditing and Assurance Standards Board.

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

State and Local Governmental Developments (December 2015)

This alert will help the auditor identify significant risks that may affect audits of state and local governmental entities, understand new and pending accounting guidance that affects financial statements prepared in accordance with generally accepted accounting principles, and assist in planning and performing upcoming audits of state and local governments in accordance with GAAS.

Government Auditing Standards and Single Audit Developments (January 2016)

This alert will help the auditor identify significant risks that may affect audits performed under *Government Auditing Standards* and Office of Management and Budget (OMB) *Uniform Guidance* or OMB Circular A-133. This alert (1) discusses important aspects of the *Uniform Guidance*, including major program determination; (2) provides an update on current developments related to single audits; and (3) highlights frequent violations relating to single audits identified by the AICPA.

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

Employee Benefit Plans (March 2016)

This 2016 edition contains information on new requirements, including the simplification of disclosure requirements for investments in certain entities that calculate net asset value per share; the simplification of disclosures for fully benefit-responsive investment contracts, plan investment disclosures, and measurement date practical expedient; and a new employee stock ownership plans chapter that includes both accounting and auditing.

Not-for-Profit Entities (March 2016)

This 2016 edition provides assistance in the preparing, auditing, accounting, and reporting of financial statements for not-for-profit entities. This new edition includes guidance on reporting donated services between affiliated not for profits, split-interest agreements, contributions and grants, functional expenses, and joint costs.

AICPA: Statement on Standards for Attestation Engagements Issued After March 31, 2016 ([Click here for link](#))

Issuance of Statement on Standards for Attestation Engagements (SSAE) No. 18, Attestation Standards: Clarification and Recodification

The attestation standards establish requirements for performing and reporting on examination, review, and agreed-upon procedures engagements that enable practitioners to report on subject matter other than historical financial statements, such as an entity's compliance with laws or regulations, the effectiveness of an entity's controls over the security of a system, and the fairness of the presentation of a statement of greenhouse gas emissions. SSAE No. 18 is effective for practitioners' reports dated on or after May 1, 2017.

Regulatory Requirements

Office of Management and Budget (OMB)

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

Circular A-119, Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities (revised January 2016)

OMB issued a revision of Circular A-119 in light of changes that have taken place in regulations, standards, and conformity assessment since the circular was last revised in 1998. OMB's revisions are meant to provide more detailed guidance to agencies on several issues, including the administration's current work in Open Government, developments in regulatory policy and international trade, and changes in technology.

OMB Circular No. A-94 (Appendix C), Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs (revised February 2016)

This revised appendix specifies certain discount rates that will be updated annually when the interest rate and inflation assumptions in the budget are changed.

Department of the Treasury (Treasury)

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

TFM, Volume 1, Announcement No. A-2016-01: *Policy Change for Reporting Collection Adjustments for Unavailable, Unappropriated, and Available Receipt Account Types via the Secure Payment System as a Treasury Disbursing Office* (December 2015)

This announcement provides agencies updated information concerning which business event type code to select within the Secure Payment System upon executing a collection adjustment to an unavailable, unappropriated, or available receipt account as a Treasury Disbursing Office. TFM, Volume III, Part 5, Chapter 1000, *Securing Government Funds on Deposit with a Depository* (December 2015)

This chapter describes depository requirements for securing federal agency funds on deposit. When a federal agency places funds on deposit with a financial institution, the financial institution must pledge collateral under conditions described in this chapter. The pledging of collateral by a financial institution is necessary to protect the federal government against risk of loss.

TFM, Volume 1, Part 5, Chapter 2000, *Depositing Domestic Checks and Cash Received in Over the Counter Collections* (March 2016)

This chapter provides instructions for federal agencies on depositing domestic checks and cash.

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

Treasury Bulletin No. 2016-02, Change to *Transmittal Letter No. S2 15-01, U.S. Government Standard General Ledger – A Treasury Financial Manual (TFM) Supplement* (November 2015)

The summary of changes identifies specific revisions made to the *U.S. Government Standard General Ledger* document. The summary heading refers to all changes to date for fiscal years 2015 and 2016.

Treasury Bulletin No. 2016-03, *Current Value of Funds Rate* (December 2015)

The Secretary of the Treasury is responsible for computing and publishing the rate used for federal debt collection, cash discounts, and rebate evaluation. The Current Value of Funds Rate (CVFR) is a percentage based on the current value of funds to Treasury. Treasury annually computes the CVFR percentage by averaging investment rates for the 12-month period ending on September 30, rounding to the nearest whole percentage.

Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB)

FASAB Statement ([Click here for link](#))

Statement of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (January 2016)

This SFFAS allows a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, operating materials and supplies, and stockpile materials. The alternative valuation method is available only when presenting information following generally accepted accounting principles (GAAP) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without using the alternative valuation method.. The ability to apply SFFAS 48 based on the second condition is only available to a reporting entity once.

FASAB Technical Release ([Click here for link](#))

Federal Financial Accounting Technical Release No. 16, *Implementation Guidance for Internal Use Software* (January 2016)

The implementation guidance in Technical Release 16 assists reporting entities in implementing SFFAS No. 10, *Accounting for Internal Use Software*. This technical release provides (1) definitions and guidance regarding recognition, measurement, and disclosure requirements; (2) descriptions of new challenges based on changes in internal use software development practices since the issuance of SFFAS 10; and (3) identification of management's role in applying SFFAS 10.

Financial Accounting Standards Board

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

Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740)* (November 2015)

Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (January 2016)

Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (February 2016)

Accounting Standards Update No. 2016-03, *Intangibles – Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815)* (March 2016)

Accounting Standards Update No. 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20)* (March 2016)

Accounting Standards Update No. 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* (March 2016)

Accounting Standards Update No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* (March 2016)

Accounting Standards Update No. 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)* (March 2016)

Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (March 2016)

Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (March 2016)

Government Accounting Standards Board (GASB)

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

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (December 2015)

The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement amends Statement No. 68 to exclude pensions provided to employees of state or local governments through cost-sharing multiple-employer defined benefit pension plans that (1) are not a state or local governmental pension plans; (2) are used to provide defined benefit pensions both to employees of state or local governments and to employees of employers that are not state or local governments; and (3) do not belong to a predominant state or local governmental employer. This statement establishes requirements for recognition and measurement of pension expense, expenditures, liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above.

Statement No. 79, *Certain External Investment Pools and Pool Participants* (December 2015)

This statement establishes criteria under which an external investment pool can qualify to elect to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. This statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14* (January 2016)

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole

corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

Statement No. 81, *Irrevocable Split-Interest Agreements* (March 2016)

This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement also requires that a government recognize revenue when the resources become applicable to the reporting period.

Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* (March 2016)

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Risk Management Guidance

Institute of Internal Auditors Practice Guides ([Click here for link](#))

Talent Management (December 2015)

Regardless of organization size, sector, or industry, people are an organization's most valuable asset. If internal auditing is to add real value and meet stakeholder expectations, the activity must comprise the right people who have the right skills and are afforded opportunities for development. This practice guide outlines best practice recommendations for the various elements—from assessing competencies and selecting candidates to training and succession planning—that make up an organization's talent management strategy.

Internal Audit and the Second Line of Defense (January 2016)

Many organizations are restructuring responsibilities to ensure that governance and monitoring functions collaborate more closely to avoid duplication. This change places more responsibility with the chief audit executive, who may be asked to take charge of risk management, compliance, and other governance functions. Navigating this process can be challenging. This guide was developed to assist practitioners in effectively determining which roles and responsibilities to assume related to governance of risk management and controls. This guide

offers recommendations for audit practitioners, especially chief audit executives, to ensure that independence and objectivity are not compromised when internal audit is responsible for second line of defense activities.