



Memorandum

Date: May 15, 2020

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. 77, January through March 2020¹

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. PSUs do not contain a complete summary of the standards. Those affected by a new standard should refer to that standard for details. This PSU highlights the effective dates of selected previously reported standards that are expected to affect auditors at the time of or shortly after issuance of the most recent update.

¹The scope of this *Professional Standards Update* includes standards and related guidance issued from January 2020 through March 2020 to the extent that such materials were publicly available as of March 31, 2020. In preparing this update, we also identified and included certain relevant materials that were issued after March 31, 2020.

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Professional Standards Update No. 77

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Auditing and Attestation Standards and Guidance

Government Accountability Office (GAO)

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

COVID-19: GAGAS CPE Alert (May 2020)

The work of auditors and their ability to complete the hours of continuing professional education (CPE) required by the 2018 generally accepted government auditing standards (GAGAS) have been affected by the Coronavirus Disease 2019 (COVID-19) pandemic. In this alert, GAO provides three exceptions to the GAGAS CPE requirements for circumstances related to the COVID-19 pandemic. The three exceptions are a 6-month grace period for completing CPE requirements, a waiver of the 20-hour annual CPE requirement, and a provision for carrying over up to 40 hours of CPE, in excess of the 80-hour requirement to the next CPE measurement period. This alert also clarifies an existing GAGAS exemption that may be used in this situation. This alert is effective as of February 29, 2020.

American Institute of Certified Public Accountants (AICPA)

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

Statement on Auditing Standards (SAS) No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134* (March 2020)

This statement amends various sections of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended and discussed below.

- Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks [AICPA, Professional Standards, AU-C sec. 800]
- Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement [AICPA, Professional Standards, AU-C sec. 805]
- Section 810, Engagements to Report on Summary Financial Statements [AICPA, Professional Standards, AU-C sec. 810]

These amendments have the following effective dates:

- Section 800: For audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2020. Early implementation is not permitted.
- Section 805: For audits of single financial statements and specific elements, accounts, or items of a financial statement as of or for periods ending on or after December 15, 2020. Early implementation is not permitted.
- Section 810: For engagements to report on summary financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

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

AICPA did not issue new or updated Statements on Standards for Attestation Engagements during the period covered by this *Professional Standards Update*.

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

U.S. Auditing Standards – AICPA (Clarified) – [AU-C] (January 2020)

This update amends various AU-C sections based on the effective date of SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*; SAS No. 135, *Omnibus Statement on Auditing Standards — 2019*; SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (AU-C sec. 703); and SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (AU-C sec. 720), and also removes appendixes A and B from AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, and appendixes B and C from AU-C section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

This update also revises the following sections for conforming changes necessary based on the issuance of SAS No. 138, *Amendments to the Description of the Concept of Materiality*:

- AU-C section 210, *Terms of Engagement*
- AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*
- AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- AU-C section 700
- AU-C section 703
- AU-C section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

U.S. Auditing Standards – AICPA (Clarified) (February 2020)

This update revises AU-C appendix B, “Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards,” based on the issuance of recent authoritative guidance. This update also revises AU-C section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*, to reflect conforming changes necessary because of the issuance of SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*.

Statements of Position – Auditing and Attestation [AUD] (January 2020)

This update adds Statement of Position (SOP) 20-1, *Reporting Pursuant to the 2020 Global Investment Performance Standards* (AUD sec. 46). This SOP provides guidance to practitioners for examining and reporting on aspects of a firm’s claim of compliance with the 2020 edition of the Global Investment Performance Standards (GIPS) standards (a verification). It also provides

guidance on examining and reporting on any of the firm's composites or pooled funds and their associated GIPS reports (a performance examination).

Continuing Professional Education [CPE] (January 2020)

This update replaces CPE sections 100 through 400 with new standards. These standards have been approved by the joint AICPA/National Association of State Boards of Accountancy (NASBA) CPE Standards Committee and the Board of Directors of both AICPA and NASBA. Unless otherwise established by state licensing bodies or other professional organizations, these standards are to be effective on December 31, 2019. The standards provide the framework for developing, presenting, measuring, and reporting of CPE programs. Among the most significant changes to the standards is allowing for adaptive learning self-study programs within the self-study standards, with references to the two methodologies to be used in determining the CPE credit for an adaptive learning program. The 2019 standards now permit the use of review questions or other content reinforcement tools in a nano learning program. Additional clarifications have been made with regard to awarding CPE credit in the different instructional delivery methods. Definitions and examples were also included to assist in applying the 2019 standards.

Auditing and Review Services (Clarified) [AR-C] (February 2020)

This update also issues Statement on Auditing Standards for Accounting and Review Services (SSARS) No. 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*.

This standard amends the following sections:

- AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- AR-C section 70, *Preparation of Financial Statements*
- AR-C section 80, *Compilation Engagements*
- AR-C section 90, *Review of Financial Statements*

All revisions are effective for the preparation, compilation, and review of financial statements and for engagements performed in accordance with SSARS, for periods ending on or after December 15, 2021.

This update also adds AR-C sections 60A, 70A, 80A, and 90A to retain currently effective guidance until SSARS No. 25 becomes effective.

This update also removes AR-C section 9090, *Review of Financial Statements: Accounting and Review Services Interpretation of Section 90*, which was superseded by SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services — 2018*.

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

AICPA did not issue new Audit Risk Alerts during the period of this *Professional Standards Update*.

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

AICPA did not issue other relevant guidance during the period covered by this *Professional Standards Update*.

International Auditing and Assurance Standards Board (IAASB)

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

IAASB did not issue new or updated Standards on Auditing during the period covered by this *Professional Standards Update*.

Regulatory Requirements

Office of Management and Budget (OMB)

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

OMB did not issue new or updated circulars or guidance during the period covered by this *Professional Standards Update*.

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

M-20-08, *The PEER Initiative: Protecting Employees, Enabling Reemployment* (January 9, 2020)

M-20-09, *Guidance Regarding Federal Grants and Executive Order 13798* (January 16, 2020)

M-20-10, *Issuance of an Addendum to the National Strategy for the Efficient Use of Real Property* (March 6, 2020)

M-20-11, *Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19)* (March 9, 2020)

M-20-12, *Phase 4 Implementation of the Foundations for Evidence-Based Policymaking Act of 2018: Program Evaluation Standards and Practices* (March 10, 2020)

M-20-13, *Updated Guidance on Telework Flexibilities in Response to Coronavirus* (March 12, 2020)

M-20-14, *Updated Federal Travel Guidance in Response to Coronavirus* (March 14, 2020)

M-20-15, *Updated Guidance for the National Capital Region on Telework Flexibilities in Response to Coronavirus* (March 15, 2020)

M-20-16, *Federal Agency Operational Alignment to Slow the Spread of Coronavirus COVID-19* (March 17, 2020)

M-20-17, *Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations* (March 19, 2020)

M-20-18, *Managing Federal Contract Performance Issues Associated with the Novel Coronavirus (COVID-19)* (March 20, 2020)

M-20-19, *Harnessing Technology to Support Mission Continuity* (March 22, 2020)

Department of the Treasury (Treasury)

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

TFM, Volume I, Announcement No. A-2020-01: *Introducing the Treasury Financial eXperience* (TFX) project (February 13, 2020)

This announcement summarizes the Department of the Treasury's Bureau of the Fiscal Service's (Fiscal Service) development of the Treasury Financial eXperience (TFX). The TFX website will be built as a user-centric resource, integrating information across multiple areas to streamline federal financial management.

TFM, Volume I, Part 2, Chapter 1500, *Description of Accounts Relating to Financial Operations* (March 17, 2020)

This chapter prescribes accounts relating to the government's financial operations. Fiscal Service and OMB assign the accounts to agencies.

TFM, Volume I, Part 4A, Chapter 3000, *Requirements for Scheduling Payments Disbursed by the Bureau of the Fiscal Service* (March 20, 2020)

This chapter prescribes requirements for disbursing transactions, as well as scheduling and classifying domestic and international payments that Fiscal Service disburses, as authorized by the Department of the Treasury.

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

TFM, Volume I, Bulletin No. 2020-10: *Changes to U.S. Standard General Ledger (USSGL)—A Treasury Financial Management (TFM) Supplement* (March 12, 2020)

This bulletin notifies agencies that part 2 of the USSGL has been revised for fiscal year 2020. Part 2 requirements for fiscal year 2020 are effectively immediately.

Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB)

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

FASAB Technical Bulletin 2020-1: *Loss Allowance for Intragovernmental Receivables* (February 20, 2020)

This technical bulletin (TB) clarifies existing standards regarding accounts receivable and related recognition standards and reporting. Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, establishes the definition, recognition, measurement, and disclosure requirements for accounts receivable. SFFAS 1 provides for two types of receivables: receivables from federal entities, or intragovernmental receivables, and receivables from nonfederal entities. It requires separate reporting of the two types of receivables.

This TB clarifies SFFAS 1 by establishing that even though SFFAS 1 identifies the two types of receivables, the absence of explicit guidance distinguishing between the accounting of intragovernmental receivables and receivables from nonfederal entities does not mean the standards only apply to receivables from nonfederal entities. This TB also clarifies that recognition of losses, provided in paragraphs 40 through 52 of SFFAS 1, applies to both intragovernmental receivables and receivables from nonfederal entities.

The TB also clarifies SFFAS 1 by explaining that the allowance approach is not a “write-off” of a receivable. Rather, it is a method for reporting an amount that the entity believes is realizable by requiring only accounts receivable, net of an allowance, to be reported on the financial statements. An allowance recognized in a reporting entity’s financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. This TB facilitates consistent reporting of accounts receivable in accordance with generally accepted accounting principles.

Financial Accounting Standards Board (FASB)

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

Accounting Standards Update 2020-01: *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force* (January 2020)

Accounting Standards Update No 2020-02: *Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (Securities and Exchange Commission Update)* (February 2020)

Accounting Standards Update No. 2020-03: *Codification Improvements to Financial Instruments* (March 2020)

Accounting Standards Update No. 2020-04: *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (March 2020)

Government Accounting Standards Board (GASB) ([Click here for link](#))

Statements

Statement No. 92, *Omnibus 2020* (January 2020)

This statement will enhance comparability in accounting and financial reporting and will improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements 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*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (ARO) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The requirements of this statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.

- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Earlier application is encouraged and is permitted by topic.

Statement No.93, *Replacement of Interbank Offered Rates* (March 2020)

Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments to replace LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasuring the lease liability or lease receivable.

The objective of this statement is to address those and other accounting and financial reporting implications that result from replacing an IBOR. This statement achieves that objective by the following:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying the secured overnight financing rate and the effective federal funds rate as appropriate benchmark interest rates for qualitatively evaluating the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

Statement No.95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (May 2020)

The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018. The effective dates of certain provisions contained in the following pronouncements are postponed by 1 year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No.2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No.2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

Earlier application of the provisions addressed in this statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Internal Audit Guidance

Institute of Internal Auditors (IIA)

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

IIA did not issue implementation guides or other relevant material during the period covered by this *Professional Standards Update*.

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

Practice Guide: *Global Technology Audit Guide: IT Change Management: Critical for Organizational Success, 3rd Edition* (February 2020)

This guidance will enable internal auditors to do the following:

- Have a working knowledge of information technology (IT) change management processes.
- Distinguish effective change management processes from ineffective ones.
- Recognize red flags and indicators that IT environments are having control issues related to change management.
- Understand that effective change management hinges on implementing appropriate preventive, detective, and corrective controls to ensure adequate management supervision.
- Recommend best practices for addressing issues, both for assurance of risks and increasing effectiveness and efficiency.

Practice Guide: *Auditing Credit Risk Management* (February 2020)

This guidance will enable internal auditors to do the following:

- Understand the importance of credit risk in a financial services context.
- Understand the regulatory environment and requirements related to credit risk.
- Understand the risk governance and risk management processes surrounding credit risk.
- Describe the nature and basis of measurement of the probability of default.
- Design an audit engagement that assesses the appropriateness and effectiveness of the credit risk management framework and the adequacy of the institution's credit profile.
- Be able to apply International Professional Practices Framework and risk-based internal audit techniques to assess and audit credit risk in their organizations.

Key Standards Coming into Effect

The following selected standards were identified in recently issued *Professional Standards Updates* as coming into effect during the period covered by the current update. Those affected by a new standard should refer to that standard for details, as effective dates may vary in some circumstances.

AICPA, Statement on Auditing Standards No. 138, *Amendments to the Description of the Concept of Materiality* (December 2019) effective for audits of financial statements and Employee Retirement Income Security Act of 1974 plan financial statements for periods ending on or after December 15, 2020. (See *Professional Standards Update* No. 76.)

AICPA, Statement on Standards for Attestation Engagements No. 20, *Amendments to the Description of the Concept of Materiality* (December 2019), effective for examination reports and review reports dated on or after December 15, 2020. Early implementation is permitted. (See *Professional Standards Update* No. 76.)

AICPA, Statement on Auditing Standards No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements* (May 2019), effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted. (See *Professional Standards Update* No. 74.)

AICPA, Statement on Auditing Standards No.135, *Omnibus Statement on Auditing Standards—2019* (May 2019), effective for audits of financial statements for periods ending on or after December 15, 2020. (See *Professional Standards Update* No. 74.)

AICPA, Statements on Standards for Forensic Services No.1 (June 2019), effective for engagements accepted on or after January 1, 2020. (See *Professional Standards Update* No. 74.)

GASB, Statement No.91, *Conduit Debt Obligations* (May 2019), effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. (See *Professional Standards Update* No. 74.)