



# Memorandum

**Date:** July 12, 2010

**To:** GAO's Financial Management and Assurance Team (FMA)  
CIGIE Financial Audit Community

**From:** James R. Dalkin, Director - FMA

**Subject:** Professional Standards Update No. 52\*  
*August 2009 through June 2010*

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 Tom Hackney and Gail Vallieres for their contributions to this issue which contains summaries of:

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

### Government Accountability Office (GAO)

- 2010 Yellow Book Update

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

- Statement on Auditing Standards (SAS) No. 117, *Compliance Audits*
- Statement on Auditing Standards (SAS) No. 118, *Other Information in Documents Containing Audited Financial Statements*
- Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Statement on Auditing Standards (SAS) No. 120, *Required Supplementary Information*
- Auditing Standards Board (ASB) Withdraws SAS No. 69, *GAAP Hierarchies Incorporated into FASB, GASB, FASAB Literature*
- Clarity and Coverage Project
- Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*
- Audit Guide: *Government Auditing Standards and Circular A-133 Audits*
- Technical Practice Aid (TPA) Section 8700.01, *Subsequent Events -- Effect of FASB ASC 855 on Accounting Guidance in AU Section 560*
- Technical Practice Aid (TPA) Section 8700.02, *Subsequent Events -- Auditor Responsibilities for Subsequent Events*
- Detecting Circular Cash Flow (*Journal of Accountancy, December 2009*)

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

Institute of Internal Auditors (IIA)

- Practice Guide: *Internal Auditing and Fraud*
- Practice Guide: *GTAG-13 Fraud Prevention and Detection in an Automated World*

Center for Audit Quality (CAQ)

- CAQ Lessons Learned: *Performing an Audit of Internal Control in an Integrated Audit*

**Regulatory Requirements**

Office of Management and Budget (OMB)

- M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*
- M-10-13, *Issuance of Part III to OMB Circular A-123, Appendix C*
- M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*
- M-10-17, *Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act*

**Accounting Standards and Guidance**

Federal Accounting Standards Advisory Board (FASAB)

- Statement No. 34, *The Hierarchy of GAAP, Including the Application of Standards Issued by the FASB*
- Statement No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment, Amending SFFAS No. 6 and No. 23*
- Statement No. 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*
- Statement No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*
- Statement No. 38, *Accounting for Federal Oil and Gas Resources*
- Concepts Statement No. 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*
- Omnibus Project: *GAAP Hierarchies Incorporated into FASB, GASB, FASAB Literature*

Financial Accounting Standards Board (FASB)

- Accounting Standards Update No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*

**Other Guidance**

American Accounting Association

- *Using Professional Judgment (The Auditor's Report, Fall 2009)*

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## Auditing and Attestation Standards and Guidance

Government Auditing Standards 2010 Exposure Draft

[www.gao.gov](http://www.gao.gov)

### ✚ **2010 Yellow Book Update** (*Anticipated to be released in Summer 2010*)

Relevance to Government Audits: HIGH

GAO will soon issue for comment a proposed 2010 revision to Government Auditing Standards (*GAGAS* or *Yellow Book*) that will modernize GAGAS with several updates to reflect major developments in the accountability and audit environment. The revision includes a conceptual framework approach to independence, an update of the financial audit standards to more clearly identify the GAGAS requirements that are supplemental to the American Institute of Certified Public Accountants (AICPA) requirements, and emphasizes specific considerations applicable to a government environment. Some of the other major changes include:

- Chapters 1 and 2 will be realigned. Chapter 1 will now include the foundation and ethical principles of government auditing, and the use and application of GAGAS will now be located in chapter 2.
- Chapter 4 will contain all the financial audit standards. The previous chapters on financial audit performance and reporting will be combined into one chapter.
- Chapter 5 will contain standards for attestation engagements. Examination engagements are defined using AICPA language.
- Chapter 6 and Chapter 7 contain fieldwork and reporting standards, respectively, for performance audits.
- Terminology will be updated for consistency with other standards.
- Consistency of the use of footnotes has been improved.

When issued in final form, the 2010 revision will supersede the July 2007 revision of the standards. For more information, please see the GAO's Government Auditing Standards (*Yellow Book*) website: <http://www.gao.gov/govaud/ybk01.htm>

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American Institute of Certified Public Accountants (AICPA)

[www.aicpa.org/](http://www.aicpa.org/)

### ✚ **Statement on Auditing Standards (SAS) No. 117, Compliance Audits**

(*December 2009*)

Relevance to Government Audits: HIGH

SAS No. 117 requires the auditor to apply AICPA Professional Standards to compliance audits, and provides guidance on performing and reporting on an audit in accordance with: (1) generally accepted auditing standards (GAAS), (2) *Government Auditing Standards*, and (3) governmental audit requirements that require an opinion on compliance. It defines terms used in the SAS related to compliance audits, identifies the elements to be included in an auditor's report on a compliance audit, and incorporates the risk assessment standards. This SAS is effective for compliance audits for fiscal periods ending on or after June 15, 2010, and early application is permitted.

### ✚ **Statement on Auditing Standards (SAS) No. 118, Other Information in Documents Containing Audited Financial Statements** (*February 2010*)

## Relevance to Government Audits: HIGH

This standard supersedes the requirements and guidance in AU section 550, *Other Information in Documents Containing Audited Financial Statements*. Along with SAS No. 119: *Supplementary Information in Relation to the Financial Statements as a Whole* this SAS supersedes the requirements and guidance in AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. It also establishes several presumptively mandatory requirements, including that:

- the auditor read the other information of which the auditor is aware in order to identify material inconsistencies, if any, with the audited financial statements.
- the auditor should modify the opinion in accordance with AU section 508, *Reports on Audited Financial Statements* if the auditor identifies a material inconsistency prior to the report release date that requires revision of the audited financial statements and management refuses to make the revision.
- the auditor makes appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date.
- if, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent material misstatement of fact, that the auditor discusses the matter with management.
- when the auditor concludes that there is a material misstatement of fact in the other information and management refuses to correct it, that the auditor notify those charged with governance of the auditor's concerns and take any further appropriate action.

This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010, and early application is permitted.

**✚ Statement on Auditing Standards (SAS) No. 119, Supplementary Information in Relation to the Financial Statements as a Whole (February 2010)**

## Relevance to Government Audits: HIGH

This standard establishes presumptively mandatory requirements that certain conditions are met in order to opine on whether supplementary information is fairly stated in relation to the financial statements as a whole. These conditions include that:

- the supplementary information was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements.
- the supplementary information relates to the same period as the financial statements.
- the financial statements were audited, and the auditor served as the principal auditor in that engagement.
- neither an adverse opinion nor a disclaimer of opinion was issued on the financial statements.
- the supplementary information will accompany the entity's audited financial statements, or such audited financial statements will be made readily available by the entity.

It also establishes a presumptively mandatory requirement that the auditor obtain the agreement of management that it acknowledges and understands its responsibilities:

- for the fair presentation of the supplementary information in accordance with the applicable criteria.

- to provide the auditor with certain written representations.
- to include the auditor's report on the supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such supplementary information.
- to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of the auditor's report.

This standard is effective for audits of financial statements for periods beginning on or after December 15, 2010, and early application is permitted.

### **Statement on Auditing Standards (SAS) No. 120, Required Supplementary Information** (*February 2010*)

Relevance to Government Audits: HIGH

This standard supersedes the requirements and guidance in AU section 558, *Required Supplementary Information* and defines *required supplementary information* as information required by a designated accounting standard setter to accompany an entity's basic financial statements. It also establishes a presumptively mandatory requirement that the auditor:

- inquire of management about the methods of preparing the information;
- compare the information for consistency with (1) management's responses to the foregoing inquiries, (2) the basic financial statements, and (3) other knowledge obtained during the audit of the basic financial statements; and
- obtain written representations from management.

If the auditor is unable to perform these procedures, the auditor should consider whether management contributed to the auditor's inability to complete the procedures. If the auditor concludes that the inability to complete the procedures was due to significant difficulties encountered with management, this standard establishes a presumptively mandatory requirement that the auditor informs those charged with governance. This standard is effective for audits of financial statements for periods beginning on or after December 15, 2010 and early application is permitted.

The summaries of Standard Nos. 117 – 120 are posted on the AICPA website:

<http://www.aicpa.org>

### **Auditing Standards Board (ASB) Withdraws SAS No. 69, GAAP Hierarchies Incorporated into FASB, GASB, FASAB Literature** (*effective Sept. 2009*)

Relevance to Government Audits: MEDIUM

The hierarchies of generally accepted accounting principles (GAAP hierarchies) of nongovernmental, state and local, and federal reporting entities have resided in SAS No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB) have issued the following pronouncements that incorporate their GAAP hierarchy into their respective authoritative literature:

- FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, as superseded by FASB Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- Statement of Federal Financial Accounting Standards No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*

For these reasons, the ASB has withdrawn SAS No. 69, effective September 2009. Similarly, the related interpretation, *“The Auditor’s Consideration of Management’s Adoption of Accounting Principles for New Transactions or Events”* has also been deleted. For more information, please see the October 2009 *CPA Letter* at the AICPA website.

### **Clarity and Convergence Project**

Relevance to Government Audits: HIGH

The AICPA’s Auditing Standards Board (ASB) has undertaken a significant effort to make GAAS easier to read, understand, and apply. To meet these goals, the ASB has adopted several clarity drafting conventions that apply to all standards issued by the ASB after January, 2008. These clarity conventions include:

- establishing objectives for each of the standards;
- including a definitions section where relevant;
- separating requirements from application and other explanatory material;
- numbering application and other explanatory material paragraphs and presenting them in a separate section that follows the requirements section;
- using formatting techniques, such as bulleted lists, to enhance readability; and
- identifying special considerations relevant to audits of smaller, less complex entities and audits of governmental audits.

Once all of the ASB’s clarified standards have been finalized, the ASB will issue all of the clarified standards in one SAS that will be codified in “AU section” format, just as it did in 1972. The effective date is expected to apply to audits of financial statements for periods ending on or after December 15, 2012.

For more information on the Clarity and Convergence Project, please see the AICPA’s Clarification and Convergence Project information at the AICPA website:

<http://www.aicpa.org/interestareas/>

### **Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization (March 2010)**

Relevance to Government Audits: MEDIUM

This Statement on Standards for Attestation Engagements (SSAE) addresses examination engagements undertaken by a service auditor to report on controls at organizations that provide services to user entities, and the focus of this SSAE is on controls at service organizations likely to be relevant to user entities’ internal control over financial reporting. This SSAE is effective for service auditors’ reports for periods ending on or after June 15, 2011, and earlier implementation is permitted.

SSAE No. 16 is consistent with ISAE 3402 *Assurance Reports on Controls at a Service Organization (December 2009)* issued by the International Auditing and Assurance Standards Board (IAASB) which is posted on the International Federation of Accountants (IFAC) website: <http://www.ifac.org/>

**✚ AICPA Audit Guide: Government Auditing Standards and Circular A-133 Audits (October 2009)**

Relevance to Government Audits: HIGH

This Audit Guide includes guidance for the audits of financial statements conducted in accordance with *Government Auditing Standards*. It also presents the recommendations of the AICPA Single Audit Working Group for audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This guide incorporates the guidance contained in AU section 801A, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. Ordering information for this Audit Guide can be obtained through the AICPA website: <http://www.aicpa.org>

**✚ Technical Practice Aid (TPA) Section 8700.01, Subsequent Events -- Effect of FASB ASC 855 on Accounting Guidance in AU Section 560 (September 2009)**

Relevance to Government Audits: HIGH

TPA Section 8700.01 states that the accounting guidance contained in AU section 560, *Subsequent Events* would no longer be applicable to audits of nongovernmental or state and local governmental entities. The accounting guidance contained in AU section 560 will continue to apply, however, to audits of federal governmental entities (those entities that apply the accounting principles issued by the Federal Accounting Standards Advisory Board), until that board issues a subsequent event standard or until AU section 560 is amended. Financial statement preparers for state and local governmental entities are required to follow the accounting guidance on subsequent events contained in Governmental Accounting Standards Board Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

**✚ Technical Practice Aid (TPA) Section 8700.02, Subsequent Events -- Auditor Responsibilities for Subsequent Events (September 2009)**

Relevance to Government Audits: HIGH

TPA Section 8700.02 states that the auditor's report date can never be earlier than management's subsequent event note date. Also, management's representations on subsequent events should be made as of the date of the auditor's report. In most cases, this will result in the date that management discloses as the date through which they have evaluated subsequent events being the same date as the auditor's report. In order to coordinate that these dates (note date, representation letter date, and auditor report date) are the same, the auditor may want to discuss these dating requirements with management in advance of beginning the audit and may also want to include, in the auditor's written understanding with the client regarding the terms of the engagement

(engagement letter), that management will not date the subsequent event note earlier than the date of their management representation letter (also the date of the auditor's report).

These TPAs are not sources of established authoritative principles, but instead offer guidance on implementing new standards. For more information on AICPA question and answer documents on technical issues, please see the AICPA website:

<http://www.aicpa.org/InterestAreas/AccountingAndAuditing/Resources/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx>

Journal of Accountancy [www.journalofaccountancy.com](http://www.journalofaccountancy.com)

✚ **Detecting Circular Cash Flow** (*December 2009*)

By John Monhemius and Kevin Durkin

Relevance to Government Audits: MEDIUM

This article addresses a fraud technique used to materially overstate assets and inflate borrowing capacity under an asset-based revolving line of credit, and also identifies red flags that may help the auditor uncover such dastardly schemes. The article may be found at the Journal of Accountancy website:

<http://www.journalofaccountancy.com/Issues/2009/Dec/20091793>

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Institute of Internal Auditors (IIA)

[www.theiia.org](http://www.theiia.org)

✚ **Practice Guide: Internal Auditing and Fraud** (*December 2009*)

Relevance to Government Audits: HIGH relevance for audit organizations that follow Yellow Book and IIA standards.

This Practice Guide increases the internal auditor's awareness of fraud, provides guidance on addressing fraud risks, and provides general guidance to help internal auditors comply with professional standards.

✚ **Practice Guide: GTAG-13 Fraud Prevention and Detection in an Automated World** (*December 2009*)

Relevance to Government Audits: HIGH relevance for audit organizations that follow Yellow Book and IIA standards.

This Global Technology Audit Guide (GTAG) supplements the IIA's Practice Guide: *Internal Auditing and Fraud* by informing and providing guidance on the use of technology to help prevent, detect, and respond to fraud. This guide focuses on IT fraud risks, IT fraud risk assessments, and how the use of technology can help internal auditors and other key stakeholders address fraud risks. It includes an explanation of the various types of data analysis used in detecting fraud, a variety of IT fraud risks, and a technology fraud risk assessment template.

IIA's Practice Guides and Global Technology Audit Guides are available at the IIA website: <https://www.theiia.org/guidance/standards-and-guidance/ippf/practice-guides/>

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Center for Audit Quality (CAQ)<http://www.thecaq.org/>

**🚩 CAQ Lessons Learned: Performing an Audit of Internal Control in an Integrated Audit** (*February 2009*)

Relevance to Government Audits: HIGH

The Center for Audit Quality (CAQ) is affiliated with the AICPA and consists of approximately 800 member firms. This “CAQ Lessons Learned” publication is intended to be used as a reference source, and may help auditors improve the effectiveness and efficiency of their integrated audits performed in accordance with PCAOB Auditing Standard No. 5 (AS No. 5), *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements*.

For more information, please see the full publication at the CAQ website:

<http://thecaq.org/newsroom/pdfs/404LessonsLearned-PerformingIntegAudit.pdf>

*Note: This document is not a substitute for authoritative technical literature and users are urged to refer to the applicable authoritative pronouncements for the technical standards.*

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## Regulatory Requirements

Office of Management and Budget (OMB)[www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)

**🚩 M-10-08, Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates** (*December 2009*)

Relevance to Government Audits: MEDIUM

Part 1 of this memorandum will apply to both recipients of Federal assistance awards and Federal contract awards, and provides guidance to Federal agencies intended to improve the quality of data reported under Section 1512 of the Recovery Act. It outlines important steps that Federal agencies must take to identify non-reporting recipients and take actions to bring such recipients into compliance with the Act.

**🚩 M-10-13, Issuance of Part III to OMB Circular A-123, Appendix C** (*March 2010*)

Relevance to Government Audits: HIGH

In response to improper payments, the President signed Executive Order 13520, *Reducing Improper Payments* and this OMB guidance implements the requirements of this Executive Order. This updated guidance is effective for Fiscal Year 2010 reporting and includes guidance related to:

- specifying responsibilities for agency accountable officials;
- determining the programs subject to the Executive Order (i.e., high priority-programs);
- defining supplemental measures and targets for high-priority programs;

- establishing reporting requirements under the Executive Order; and
- establishing procedures to identify entities with outstanding improper payments.

**✚ M-10-14, Updated Guidance on the American Recovery and Reinvestment Act (March 2010)**

Relevance to Government Audits: MEDIUM

This memorandum provides guidance to Federal agencies and recipients intended to promote continuous improvement, and includes guidance that:

- highlights the steps Federal agencies must take to review data quality of recipient reports during the new “Continuous Corrections” period initiated in January 2010.
- introduces a new category of data quality issues to be identified and tracked, and provides specific instructions on preventing such issues from occurring.
- clarifies the process by which Federal agencies obtain OMB approval of proposed program-specific guidance related to recipient reporting.
- instructs Federal agencies to take immediate action, as appropriate, to review and act on Single Audit findings.
- reminds Federal agencies of applicable requirements and flexibilities for States to recover administrative costs and establishes a requirement to update OMB on efforts taken in this area.

**✚ M-10-17, Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act (May 2010)**

Relevance to Government Audits: MEDIUM

This memorandum highlights additional steps beyond existing policies and procedures that OMB has determined necessary to carry out the President’s directive for more aggressive action in addressing ARRA funding recipient non-compliance. Among other requirements, this memorandum:

- instructs Federal agencies to contact new recipients prior to the beginning of each reporting period to notify them of their reporting obligations;
- directs Federal agencies to contact recipients who in prior quarters have not reported when required, and pursue consistent and comprehensive follow-up to achieve reporting;
- mandates the use of available tools to actively monitor recipients during the reporting period, and requires outreach to recipients that have not reported prior to the close of the reporting period;
- requires Federal agencies to obtain recipient compliance with their reporting responsibilities or pursue sanctions and remedies; and
- requires Federal agencies to report non-compliant recipients to OMB within five days of the quarterly close.

All of OMB’s Fiscal Year 2010 memorandum are available at the OMB’s website:

[http://www.whitehouse.gov/omb/memoranda\\_default/](http://www.whitehouse.gov/omb/memoranda_default/)

For more information on any of these OMB documents, or to access other OMB circulars, bulletins, and memoranda for this year or previous years, please see the OMB

website: <http://www.whitehouse.gov/omb/agency/default/>

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## Accounting Standards and Guidance

Federal Accounting Standards Advisory Board (FASAB)

[www.fasab.gov](http://www.fasab.gov)

### ✚ **Statement No. 34, The Hierarchy of GAAP, Including the Application of Standards Issued by the FASB** (*July 2009*)

Relevance to Government Audits: HIGH

The objective of this statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). This statement applies to the general purpose financial reports of all federal reporting entities that are presented in conformity with GAAP, and the requirements in this standard are effective upon issuance.

### ✚ **Statement No. 35, Estimating the Historical Cost of General Property, Plant, and Equipment, Amending SFFAS No. 6 and No. 23** (*October 2009*)

Relevance to Government Audits: HIGH

This statement amends both SFFAS No. 6, *Accounting for Property, Plant, and Equipment* and SFFAS No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*. This standard clarifies that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment (G-PP&E). In addition, these amendments also apply in those cases where entities have decided to use estimates to determine the historical cost values of G-PP&E. This statement is effective upon issuance to ensure that any cost savings available are realized as soon as possible.

### ✚ **Statement No. 36, Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government** (*September 2009*)

Relevance to Government Audits: HIGH

This statement requires reporting that will help readers of the consolidated financial report of the United States Government (CFR) determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. The reporting requirements apply to the consolidated financial report, and do not apply to financial statements prepared at the component entity level. This statement provides for a phased-in implementation, but earlier implementation is encouraged. All information will be reported as RSI for the first three years of implementation (fiscal years 2010, 2011, and 2012). Beginning in fiscal year 2013, the required information will be presented as a basic financial statement, disclosures, and RSI as designated within the standard.

✚ **Statement No. 37, Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements**  
*(April 2010)*  
 Relevance to Government Audits: HIGH

This statement amends sections of SFFAS No. 17, *Accounting for Social Insurance*. In addition to the current requirements in SFFAS No. 17, the statement requires the government-wide entity, as well as entities that present a statement of social insurance (SOSI), to:

- include information about costs, assets and liabilities, social insurance commitments, budget flows, and long-term fiscal projections in one section of the management’s discussion and analysis (MD&A);
- include in the MD&A a table or other singular presentation of key measures drawn from the basic financial statements;
- add a section within the SOSI that summarizes the net present values of cash flows and presents certain subtotals and totals; and
- present a statement of changes in social insurance amounts (SCSIA) that indicates the reasons for changes in the open group measure from the end of the previous reporting period.

The provisions of this statement will be effective beginning in fiscal year 2011.

✚ **Statement No. 38, Accounting for Federal Oil and Gas Resources** *(April 2010)*  
 Relevance to Government Audits: MEDIUM

This statement requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties and also requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. This statement is effective as RSI for periods beginning after September 30, 2011, and earlier implementation is encouraged.

✚ **Concepts Statement No. 6, Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information**  
*(February 2009)*  
 Relevance to Government Audits: HIGH

This concepts statement amends SFFAC No. 2, *Entity and Display* to provide guidance for use in determining whether information should be basic information, required supplementary information (RSI), or other accompanying information (OAI). Although each of these categories communicates information to readers, each may be subjected to different procedures and reporting requirements under generally accepted government auditing standards. The statement defines the categories as follows:

- Basic information is essential for the financial statements and notes to be presented in conformity with GAAP.
- RSI is information that a body that establishes GAAP requires to accompany basic information.

- OAI is information that accompanies basic information and required supplementary information, but is not required by a body that establishes GAAP.

For more information on SFFAS Nos. 34 – 38 and SFFAC No. 6, please see the FASAB website: <http://www.fasab.gov/>

### **Omnibus Project: GAAP Hierarchies Incorporated into FASB, GASB, FASAB Literature**

Relevance to Government Audits: MEDIUM

AICPA requested that the U.S. accounting standards-setters (FASB, FASAB, and GASB) consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. The guidance includes: (1) the GAAP hierarchy; (2) related party transactions; (3) subsequent events; and (4) consideration of an entity's ability to continue as a going concern (sustainability). FASAB has issued Statement No. 34 on the GAAP hierarchy and is working on the remaining three topics. For more information on this project, please see the FASAB's *AICPA Omnibus Project* at the FASAB website: <http://www.fasab.gov/aicpaomnibus.html>

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Financial Accounting Standards Board (FASB)

[www.fasb.org](http://www.fasb.org)

### **Accounting Standards Update No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements** (February 2010)

Relevance to Government Audits: HIGH

This update addresses both the interaction of the requirements of Topic 855, *Subsequent Events* with the SEC's reporting requirements and the intended breadth of the reissuance disclosure provision related to subsequent events. The amendments in this update apply to the financial statements of all nongovernmental entities, and are effective upon issuance of the final update, except for the use of the issued date for conduit debt obligors, which is effective for interim or annual periods ending after June 15, 2010.

For more information on this document, or to access other FASB publications for this year or previous years, please see the FASB website: <http://www.fasb.org/>

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## **Other Guidance**

The Auditor's Report

[www.aaahq.org](http://www.aaahq.org)

### **Using Professional Judgment (Fall 2009)** By Guy Moore Relevance to Government Audits: HIGH

This article "Using Professional Judgment" from *The Auditors Report* (Volume 33, No. 1, Fall 2009) is a release from the Auditing Section of the American Accounting Association

(AAA) and discusses the meaning and importance of professional judgment, as well as considerations when applying professional judgment. This is important as auditors use professional judgment to focus on the most important aspects of an audit; to determine the nature, timing, and extent of audit procedures; and to appropriately challenge the accounting, reporting, and other assertions made by management. This article is available on the AAA website: <http://aaahq.org/audit/Pubs/Audrep/09Fall/item01.htm>

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