

Memorandum

Date: March 7, 2013

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

From: James R. Dalkin, Director – FMA
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Subject: Professional Standards Update No. 59*
November 2012 through January 2013

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 relevant standard for details. Thanks to Barry Grinnell for his contributions to this issue which contains summaries of:

Auditing and Attestation Standards and Guidance

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) and the AICPA AUDITING STANDARDS BOARD (ASB)

- Statement on Auditing Standards No. 127, *Omnibus Statement on Auditing Standards - 2013*
- 2012/13 AICPA Audit Risk Alert - Independence and Ethics Developments
- Governmental Audit Quality Center - Auditee Resource Center

INSTITUTE OF INTERNAL AUDITORS (IIA)

- International Standards for the Professional Practice of Internal Auditing (Revised)
- Global Technology Audit Guide 4: Management of IT Auditing, 2nd Edition

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

- Auditing Standard 16 – Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380
- Staff Audit Practice Alert No. 10 - Maintaining and Applying Professional Skepticism in Audits

Regulatory Requirements

OFFICE OF MANAGEMENT AND BUDGET (OMB)

- OMB Circular A-129 - *Policies for Federal Credit Programs and Non-Tax Receivables*
- OMB Memo M-13-04 - *2013 Discount Rates for OMB Circular No. A-94*
- OMB Memo M-13-02 - *Improving Acquisition through Strategic Sourcing*

Accounting Standards and Guidance

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

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

- Statement of Federal Financial Accounting Standards No. 44 - *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

- Accounting Standards Update No. 2013-01— Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*
- Accounting Standards Update No. 2012-07— Entertainment—Films (Topic 926): *Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs*
- Accounting Standards Update No. 2012-06— Business Combinations (Topic 805): *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*
- Accounting Standards Update No. 2012-05— Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*
- Accounting Standards Update No. 2012-04—Technical Corrections and Improvements

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

- Statement No. 69 — *Government Combinations and Disposals of Government Operations*

Auditing and Attestation Standards and Guidance

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)

www.aicpa.org

✚ Statement on Auditing Standards (SAS) No. 127, *Omnibus Statement on Auditing Standards—2013* (January 2013)

This Omnibus Statement on Auditing Standards (SAS) contains amendments to SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, Section 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” and SAS No. 122, section 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks”.

- Among the changes effected by the amendments to Section 600 are amendments that permit making reference to the audit of a component auditor in the auditor’s report on the group financial statements when the component’s financial statements are prepared using a different financial reporting framework than that used for the group financial statements, if certain conditions are met. The amendments to Section 600 also add a requirement that when reference is made to a component auditor’s report on financial statements prepared using a different financial reporting framework, for the auditor’s report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component’s financial statements to the financial reporting framework used by the group.
- The amendments to SAS No. 122, section 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks” add another basis of accounting to the bases of accounting defined as special purpose frameworks.

These amendments are effective for audits of group financial statements for periods ending on or after December 15, 2012.

✚ Audit Risk Alert: *Independence and Ethics Developments - 2012/13 Audit Risk Alert* (January 2013)

This Audit Risk Alert focuses on recent developments in independence and ethics for accountants and auditors and helps users understand the independence and ethics requirements under the AICPA Code of Professional Conduct and, if applicable, certain other rule-making and standard setting bodies. For example, this Audit Risk Alert includes discussions on the independence and ethics rules promulgated by the Federal Deposit Insurance Corporation (FDIC), International Ethics Standards Board, Public Company Accounting Oversight Board (PCAOB), and U.S. Department of Labor.

✚ Governmental Audit Quality Center - Auditee Resource Center (November 2012)

The Governmental Audit Quality Center (GAQC) has created a new section of the GAQC Web site intended for procurers of audit services (i.e., auditees). Information found on this section of the site relates to auditees that are required to undergo audits performed under *Government Auditing Standards*, and include financial statement audits, compliance audits including audits performed under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (referred to as single audits), Department of Housing and Urban Development (HUD) audits, and other compliance audits of for-profit entities. The Auditee Resource Center includes Audit Tools, Practice Aids, and Other Resources, AICPA Audit and Accounting Guides and Other Publications, and a compilation of Web sites useful to auditors and their auditees. The Auditee Resource Center can be accessed here: [Auditee Resource Center](#)

INSTITUTE OF INTERNAL AUDITORS (IIA)

www.theiia.org

International Standards for the Professional Practice of Internal Auditing (Revised)

The International Internal Audit Standards Board (IIASB) recently released the revision to the International Standards for the Professional Practice of Internal Auditing (Standards). The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The new Standards became effective on January 1, 2013.

Global Technology Audit Guide 4: Management of IT Auditing, 2nd Edition (January 2013)

Global Technology Audit Guide (GTAG) 4: Management of Information Technology (IT) Auditing, 2nd edition, helps chief audit executives (CAEs) keep pace with the ever-evolving landscape of technology as it relates to IT auditing. This 2nd edition of GTAG 4 takes into account the latest developments in the IT landscape and empowers CAEs to more efficiently and effectively manage their IT audit work by focusing on three core areas, including determining where IT audit resources are needed, accurately evaluating IT-related risks, and effectively executing IT audit work.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

<http://pcaobus.org>

✚ Auditing Standard No. 16 (AS No. 16) – Communications with Audit Committees; Related Amendments to PCAOB Standards; and Transitional Amendments to AU Sec. 380 *(December 17, 2012)*

Auditing Standard No. 16 is intended to improve audits by fostering constructive dialogue between the auditor and the audit committee about significant audit and financial statement matters. This standard requires the auditor to communicate certain matters regarding the audit and the financial statements to the audit committee, which should assist the audit committee in fulfilling its oversight responsibilities regarding the financial reporting process. The standard enhances certain existing auditor communication requirements by requiring the auditor to communicate certain matters regarding the company's accounting policies, practices, and estimates; the auditor's evaluation of the quality of the company's financial reporting; information related to significant unusual transactions, including the business rationale for such transactions; and the auditor's views regarding significant accounting or auditing matters when the auditor is aware that management consulted with other accountants about such matters and the auditor has identified a concern regarding these matters.

✚ Staff Audit Practice Alert No. 10 - Maintaining and Applying Professional Skepticism in Audits *(December 4, 2012)*

PCAOB standards define professional skepticism as an attitude that includes a questioning mind and a critical assessment of audit evidence. The standards also state that professional skepticism should be exercised throughout the audit process, and it is particularly important in those areas of the audit that involve significant management judgments or transactions outside the normal course of business. The Office of the Chief Auditor is issuing this practice alert to remind auditors of the requirement to appropriately apply professional skepticism throughout their audits and includes discussions on the topics of Professional Skepticism and Due Professional Care, Impediments to the Application of Professional Skepticism, and the Importance of Supervision to the Application of Professional Skepticism. Due to the fundamental importance of professional skepticism in performing an audit in accordance with PCAOB standards, the PCAOB is continuing to explore whether additional actions might enhance auditors' professional skepticism.

Regulatory Requirements

OFFICE OF MANAGEMENT AND BUDGET (OMB)

www.whitehouse.gov/omb

✚ OMB Circular A-129 - Policies for Federal Credit Programs and Non-Tax Receivables *(Revised 01/2013)*

This Circular prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting non-tax receivables. It sets principles for designing credit programs, including: the preparation and review of legislation and regulations; budgeting for the subsidy costs and administrative expenses of credit programs, and minimizing unintended costs to the Government; and improving the efficiency and effectiveness of Federal credit programs. This Circular rescinds and replaces OMB Circular No. A-129 (revised), dated November 2000. This Circular supplements, and does not supersede, the requirements applicable to budget submissions under OMB Circular No. A-11 and requirements applicable to proposed legislation and testimony under OMB Circular No. A-19 and is effective immediately.

✚ OMB Memo M-13-04 - 2013 Discount Rates for OMB Circular No. A-94 *(January 24, 2013)*

This memo transmits the revised 2013 Discount Rates for the OMB Circular No. A-94 – the OMB Circular that specifies the discount rates that are updated when the interest rate and inflation assumptions in the budget are changed. These updated discount rates are found in Appendix C of the revised Circular No. A-94, and the attachment to this memorandum is an update of the Appendix C. It provides discount rates that will be in effect for calendar year 2013. The rates presented do not apply to regulatory analysis or benefit-cost analysis of public investment. They are to be used for lease-purchase and cost-effectiveness analysis, as specified in the OMB Circular No. A-94.

✚ OMB Memo M-13-02 - Improving Acquisition through Strategic Sourcing *(December 5, 2012)*

This memorandum establishes a broad strategic sourcing initiative to ensure that all agencies manage their acquisitions effectively. This initiative puts additional responsibilities for designing and implementing government-wide strategic sourcing solutions on large agencies, including the designation of Strategic Sourcing Accountable Officials (SSAOs) by CFO Act Agencies, the establishment of the Interagency Strategic Sourcing Leadership Council (SSLC), a description of the additional responsibilities of the General Services Administration and the characteristics of Strategic Sourcing Acquisition Vehicles.

Accounting Standards and Guidance

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

www.fasab.gov

✚ Statement of Federal Financial Accounting Standards No. 44 - *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use* (January 3, 2013)

This Statement establishes accounting and financial reporting standards for the impairment of general property, plant, and equipment (G-PP&E) remaining in use, except for internal use software. G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. Recognition of impairment losses is dependent upon a two-step process that entails (a) identifying potential impairments and (b) testing for impairment. The losses should be reasonably estimated by determining the portion of the decline in the net book value of the G-PP&E attributable to the lost service utility. This Statement does not anticipate that entities will have to establish additional or separate procedures beyond those that may already exist, such as those related to deferred maintenance and repairs, to search for impairments. This Statement improves financial reporting by requiring entities to report the effects of G-PP&E impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the G-PP&E or upon disposal of the G-PP&E. This will enable users of financial statements to discern the cost of impairments when they occur, the financial impact on the reporting entity, and the cost of services provided following the impairment. The standards are effective for reporting periods beginning after September 30, 2014 with earlier implementation encouraged.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

www.fasb.org

✚ Accounting Standards Update No. 2013-01— *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (January 2013)

The objective of this accounting standards update is to clarify the scope of the offsetting disclosures, address implementation issues about the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, and address any unintended consequences. The amendments clarify the intended scope of the disclosures required by Section 210-20-50, and provide the user of financial statements with comparable information relating to certain reconciling differences between financial statements prepared in accordance with U.S. GAAP and those financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The amendments in this Update affect entities that have derivatives accounted for in accordance with Topic

815, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods, and an entity should provide the required disclosures retrospectively for all comparative periods presented.

✚ Accounting Standards Update No. 2012-07— Entertainment—Films (Topic 926): *Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs* (October 2012)

The objective of this accounting standards update is to align guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances within GAAP. It requires that, if evidence of a possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before the financial statements are issued, a rebuttable presumption exists that the conditions leading to the write-off existed at the balance sheet date. The amendments in this Update apply to all entities that perform impairment assessments of unamortized film costs in accordance with Topic 926. The amendments are effective for impairment assessments performed on or after December 15, 2012 for SEC filers, and effective for impairment assessments performed on or after December 15, 2013 for all other entities. The amendments should be applied prospectively, and earlier application is permitted.

✚ Accounting Standards Update No. 2012-06— Business Combinations (Topic 805): *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (October 2012)

The objective of this accounting standards update is to address and interpret the terms on basis and contractual limitations when measuring an indemnification asset recognized in a government-assisted (e.g., Federal Deposit Insurance Corporation or National Credit Union Administration) acquisition of a financial institution that includes a loss-sharing agreement (indemnification agreement). The amendments in this Update affect all entities that recognize an indemnification asset (in accordance with Subtopic 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*) as a result of a government-assisted acquisition of a financial institution. For public and nonpublic entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted.

✚ Accounting Standards Update No. 2012-05— Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* (October 2012)

The objective of this accounting standards update is to address the diversity in practice about how to classify cash receipts arising from the sale of certain donated financial assets, such as securities, in the statement of cash flows of not-for-profit entities (NFPs). The amendments in this Update require an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. The amendments in this Update are effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013.

✚ Accounting Standards Update No. 2012-04—Technical Corrections and Improvements (*October 2012*)

The amendments in this accounting standards update include amendments that identify when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. This Update contains amendments that affect a wide variety of Topics in the Codification, and apply to all reporting entities within the scope of the affected accounting guidance. The amendments in this Update are presented in two sections—*Technical Corrections and Improvements* (Section A) and *Conforming Amendments Related to Fair Value Measurements* (Section B). For public entities, the amendments that are subject to the transition guidance are effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments subject to the transition guidance are effective for fiscal periods beginning after December 15, 2013.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

www.gasb.org

✚ Statement No. 69 — Government Combinations and Disposals of Government Operations (*January 2013*)

GASB recently approved a new standard intended to improve accounting and financial reporting for U.S. state and local governments' combinations (including mergers, acquisitions, and transfers of operations) and disposals of government operations, including a transfer to another government or a sale. This Statement provides guidance for determining whether a specific government combination is a government merger, a government acquisition, or a transfer of operations. It also provides helpful guidance on reporting the disposal of government operations that have been transferred or sold. The requirements of this Statement are effective for periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application of the standard is encouraged.
