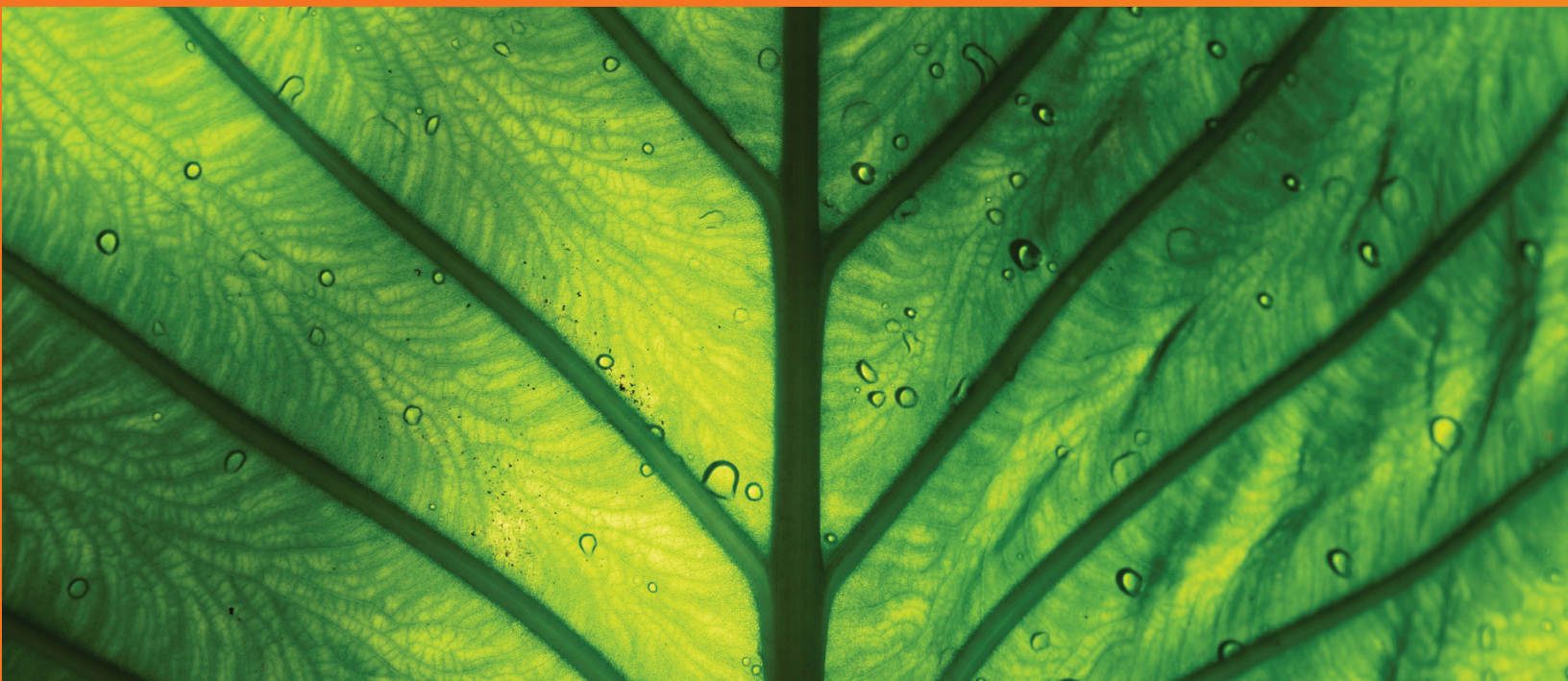




Governmental Accounting and Auditing Supplement No. 2-2018





GOVERNMENTAL ACCOUNTING AND AUDITING SUPPLEMENT No. 2-2018



Chapter 1

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Introduction

This update includes the more significant accounting and auditing developments affecting state and local governments from April 1, 2018, through June 30, 2018. Included in this update are relevant standard-setting and project activities of the Auditing Standards Board (ASB), Professional Ethics Executive Committee (PEEC), GASB, the U.S. Government Accountability Office (GAO), and the Office of Management and Budget (OMB).¹

These developments, although believed to be complete at the date at which they were prepared for this course material, may not cover all areas within accounting and auditing relevant to all users of this material. Readers are encouraged to visit the AICPA's Financial Reporting Center for additional resources, including various "standards trackers," for the most recent standard-setting activity in the areas of accounting and financial reporting, audit and attest, and compilation, review, and preparation. Members of the Governmental Audit Quality Center (GAQC) may also periodically check the GAQC website for developments in *Government Auditing Standards*, single audits, and audits of governmental financial statements.

¹ This does not include the annual draft update to the *Compliance Supplement*. This can be reviewed at the OMB website through the AICPA website at <https://www.aicpa.org/interestareas/governmentalauditquality/resources/singleaudit/2018-omb-compliance-supplement.html>.

This update may refer you to other sources of information, in which case, you are strongly encouraged to review that information if it is relevant to your needs.

After completing this course, you should be able to identify some of the more significant accounting and auditing developments from April 1, 2018, through June 30, 2018.

Audit and accounting final and proposed standards

Final standards, interpretations, and regulations

Auditing Standards Board

The ASB did not issue any new or revised standards or interpretations affecting state or local governments during this period.

Professional Ethics Executive Committee

The PEEC did not issue any new or revised standards or interpretations affecting state or local governments during this period.

GASB

Accounting standards updates

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

Issue date

April 2018

Background and main provisions

GASB Statement No. 88 was issued to provide clarity in the notes to the financial statements related to debt, including direct borrowings and direct placements. The statement requires information that will help financial statement users to understand the effects of debt on a government's future resource flows.

GASB Statement No. 88 defines debt as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This definition does not apply to leases, except for contracts reported as financed purchases of the underlying asset, or accounts payable.

The statement requires the following information related to debt to be disclosed in the notes to the financial statements:

1. Amount of unused lines of credit
2. Assets pledged as collateral for debt

3. Terms specified in debt agreements related to significant
 - a. events of default with finance-related consequences,
 - b. termination events with finance-related consequences, and
 - c. subjective acceleration clauses

The notes to the financial statements should also separate debt disclosures related to direct borrowings and direct placements of debt from other debt.

Effective date

The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Implementation Guide No. 2018-1, *Implementation Guidance Update – 2018*

Issue date

May 2018

Background and main provisions

GASB issued the questions in the implementation guide to address topics in practice. The implementation guide amends guidance in Implementation Guide No. 2015-1; Implementation Guide No. 2016-1, *Implementation Guidance Update – 2016*; and Implementation Guide No. 2017-1, *Implementation Guidance Update – 2017*. The implementation guide also provides new category b guidance related to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and GASB Statement No. 77, *Tax Abatement Disclosures*, as well as employer reporting for pensions, plan reporting for other postemployment benefits (OPEB), and the statistical section of the financial statements.

Effective date

The requirements of this implementation guide are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

Issue date

June 2018

Background and main provisions

Because of the issuance of GASB Statement No. 62, which incorporated FASB guidance issued prior to November 30, 1989, into GASB literature as it existed, business-type activities and enterprise funds of governments were instructed to capitalize interest costs incurred during the period of construction. This approach was inconsistent with other GASB literature.

The statement requires that interest costs incurred during construction not be capitalized in state and local government financial statements. Interest costs incurred during construction should be recognized as an expense in the period incurred in financial statements prepared using the economic resources measurement focus. These costs are recognized as an expenditure on a basis consistent with

governmental fund accounting principles in financial statements prepared using the current financial resources measurement focus.

Effective date

The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GAO

The GAO did not issue any standards, interpretations, or regulations during this period.

The 2018 version of the Yellow Book is expected to be issued shortly after the date of this supplement. Users of this material are encouraged to monitor the GAO and GAQC websites at the following addresses:

- **GAO:** <http://www.gao.gov>
- **GAQC:** <http://www.aicpa.org/interestareas/governmentalauditquality.html>

OMB

2018 Compliance Supplement

Issue date
May 2018

Background and main provisions

The OMB issues an updated *Compliance Supplement* annually for use in performing single audits. This update does not detail the annual changes to the supplement. However, auditors should note that the OMB issued the 2018 *Compliance Supplement* in a different format that provides only significant updates and changes.

As a result, auditors must use both the 2017 and 2018 supplements when performing audits of fiscal years for which the 2018 *Compliance Supplement* is effective. In some situations, the auditor uses only the 2017 supplement; for others, the auditor uses only the 2018 supplement. Finally, for some agencies, the auditor uses the 2017 supplement for some programs and the 2018 supplement for others. The most current and previous year editions can be found at <https://www.whitehouse.gov/omb/information-for-agencies/circulars>.

The Government Audit Quality Center (GAQC) has posted a resource that contains both the 2018 *Compliance Supplement*, by section, and the 2017 *Compliance Supplement*, by section. The 2017 *Compliance Supplement* files posted include a watermark that indicates those sections of the 2017 supplement that were superseded by the 2018 supplement. The marking of the 2017 supplement files has been done to help auditors avoid using a superseded or deleted section of the 2017 supplement and

is nonauthoritative. In addition, the resource lists key auditor considerations for particular parts of the supplement. This resource is available to the public and can be found at <https://www.aicpa.org/interestareas/governmentauditquality/resources/singleaudit/2018-omb-compliance-supplement.html>.

Effective date

The 2018 OMB *Compliance Supplement* is effective for audits of fiscal years beginning after June 30, 2017.

Proposed standards, interpretations, and regulations

AICPA

Auditing Standards Board

The ASB did not issue any proposed standards, interpretations, or regulations affecting state or local governments during this period.

Professional Ethics Executive Committee

The PEEC did not issue any proposed standards or interpretations affecting state or local governments during this period.

GASB

GASB did not issue any proposed standards, interpretations, or regulations during this period.

GAO

The GAO did not issue any proposed standards, interpretations, or regulations during this period.

OMB

The OMB did not issue any proposed standards, interpretations, or regulations during this period.

Update on AICPA audit quality initiative

Enhancing Audit Quality: A progress report

Auditing is the cornerstone of the CPA profession and a valuable service to financial statement users of businesses, not-for-profits, governments, and employee benefit plans. Given the public's and business decision-makers' reliance on audited financial statements, CPAs must perform audits in the highest-quality manner. In 2014, the AICPA launched the Enhancing Audit Quality (EAQ) initiative. The EAQ initiative supports the CPA profession's commitment to performing high-quality audits and uses a holistic, data-driven approach to detect quality trends and develop resources and education for auditors, auditees, and other stakeholders of the audit profession.

Background

The EAQ's 6-Point Plan to Improve Audits is a road map for the profession's journey to audit excellence in an ever-changing and increasingly complex business environment. As part of the EAQ, the AICPA implemented several programs that promote audit quality and demonstrate the profession's ongoing commitment to quality improvement. The EAQ was designed to provide auditors and audit engagement teams with resources and tools to maintain and enhance their competencies, as well as promote high-quality work.

Examples of such resources include the following:

- New quality control tools, resources, and training to help firms establish and maintain effective quality control systems
- Enhancements to the Peer Review Program that better identify practice issues and require more targeted and timely remediation
- New industry-specific training programs that focus on competency development and related certificate programs that help highly competent auditors distinguish themselves in the marketplace

Ultimately, audit quality results from a profession-wide dedication to continuous improvement and evolution. Since releasing its "Enhancing Audit Quality: 2017 Highlights and Progress" report in October 2017, the AICPA has helped the profession make further progress toward improved audit quality. The following provides an update on a few of the initiatives.

Peer Review Program

The Peer Review Program (PRP) is helping firms improve their work after quality issues are identified. Eighty-six percent of firms improved in their next peer review when the PRP required a third-party review of their engagements or quality control documents.

Noncompliance

A 2015 study found that 16 percent of firms required to subject their employee benefit plan audits to peer review had failed to do so. A short two years later, another study found that noncompliance had been cut in half.

Documentation – A problem

Of all material noncompliance with auditing standards, 50 percent is due to inadequate audit documentation. The *Journal of Accountancy* published a quiz to test readers' knowledge of the audit documentation standard in 2017. More than 10,000 people took this quiz. See www.journalofaccountancy.com/documentation.

Audit documentation toolkit

There were more than 15,000 visits to the AICPA's free audit documentation toolkit at www.aicpa.org/documentation. Resources were accessed more than 7,600 times in 2017.

Center for Plain English Accounting

The Center for Plain English Accounting helps member firms understand and implement standards by sharing technical advice and guidance in a straightforward manner. See www.aicpa.org/CPEA.

Single audits

Over 8,600 auditors and organizations subject to single audits learned about single audit resources and the results of an AICPA study on the factors driving single audit quality through outreach the AICPA conducted in November 2017. See an infographic with the study results at www.aicpa.org/EAQ.

Employee benefit plan audits

On Dec. 12, 2017, the AICPA presented the most common issues affecting employee benefit plan (EBP) audit quality in a webcast entitled "EBP Audits: Common Misconceptions and How to Address Them." The webcast is available as an on-demand course at AICPAStore.com/EEAQ.

Quality control

More than 7,900 quality control resource downloads occurred in 2017, based on more than 4,900 visits to the Private Companies Practice Section's "Invigorate the Focus on Quality Toolkit" page. See www.aicpa.org/pcps/quality.

Cybersecurity Fundamentals for Finance and Accounting Professionals Certificate

The AICPA released this certificate program in October 2017 to help participants understand cybersecurity risks and opportunities for their (or their clients') organizations. For information, see <https://certificates.aicpastore.com/certificates/cybersecurity-fundamentals-finance-accounting-professionals>.

Advanced SOC for Service Organizations Certificate

The AICPA released this certificate program in November 2017 to test participants' knowledge and skills related to conducting both SOC 1[®] and SOC 2[®] engagements. See AICPAStore.com/SOCforSOCert.

Cybersecurity Resource Center

The AICPA's free Cybersecurity Resource Center – launched in August 2017 at www.aicpa.org/cybersecurity – was visited more than 13,000 times and the resources were accessed more than 2,500 times in 2017.

Next steps

2018 EAQ areas of focus

- Risk assessment
- Peer review
- Documentation
- Single audits
- Benefits of specialization
- Auditing in the future

Upcoming projects

- Resources and education to support compliance with the risk assessment standard while addressing common misconceptions
- OnPoint PCR: An innovative technology platform for preparations, compilations, and reviews that launched in June 2018
- GAQC driving better understanding around tests of controls over compliance
- Additional audit documentation resources to support both efficiency and quality enhancement
- Strategic efforts to strengthen the population of professionals and specialists serving as peer reviewers
- Exploration of changes to the auditor's reporting model and audit evidence standard
- Certified in the Valuation of Financial Instruments™ (CVFI™) credential launching late summer 2018 for CPAs and professionals who specialize in the valuation of complex financial instruments

