



GOVERNMENT E-NEWS

E-NEWSLETTER FOR AICPA MEMBERS IN GOVERNMENT

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DEAR MEMBERS

Summertime and the living is easy – or so the song says. But for many of you in government – this can be a busy time of year as many governments have fiscal year ends between June and September. And the past few months have certainly been busy ones in the world of government accounting and auditing with an update to the GAO Auditing Standards (Yellow Book), OMB's update of Circular A-133 to reflect SAS 112 terminology, the recent publicity concerning the controversies between some states and GASB, and SEC Chairman Christopher Cox's call for potential changes in the municipal securities market and GASB oversight and funding. Updates on all these items and more are provided below.

Things have been busy here at the AICPA also. The GPAC Committee has been busy working on plans for a summit meeting for early in 2008 along with the creation of a recruiting presentation to go along with the recruitment video that was produced last year. Our colleagues here in Durham have been finalizing the details for this year's National Governmental Accounting and Auditing Update Conference to be held first in Washington DC on August 20 and 21 with an encore presentation in Tempe, Arizona on September 17-18. This conference promises to offer updates on GASB matters, the updated Yellow Book, Circular A-133 and other issues important to government financial professionals. In addition, we will be announcing 2007 Outstanding CPA in Government award winners at the Washington event.

You will also find a number of updated publications covering the changes in government auditing and accounting on the CPA2BIZ website. A few of the most relevant are highlighted below. While we wouldn't suggest them for beach reading, they would be a useful addition to your work library.

We hope that you are enjoying your summer.

Best regards,

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AICPA Vice President
Business, Industry & Government

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TOP STORIES

GAO Issues Update to Government Auditing Standards (Yellow Book)

On July 27, 2007, the Comptroller General of the United States issued the 2007 revision of *Government Auditing Standards*, which supersedes the 2003 revision and updates the January 2007 revision. The July 2007 version contains the January 2007 revision to the standards and updates the quality control and peer review sections in chapter 3. An electronic version of this document can be accessed on [GAO's Yellow Book Web page](#). Along with the July 2007 Yellow Book, the GAO posted two related documents: (1) [Summary of Major Changes](#), which highlights significant changes from the 2003 revision; and (2) [Listing of Technical Changes](#), which lists technical changes made since the January 2007 revision. The July 2007 revision of Government Auditing Standards will be effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. Early implementation is permissible and encouraged. For financial audits, certain standards of the Auditing Standards Board (ASB) that affect Government Auditing Standards become effective prior to these dates. The GAO encourages audit organizations to implement the relevant sections of the 2007 revision for financial audits concurrent with the implementation of the related ASB standards.

OMB Revises Circular A-133 for SAS No. 112 Terminology

To be consistent with the recent revisions to professional auditing standards included in SAS 112 and Government Auditing Standards (GAS), Circular A-133 references to "reportable condition" and "material weakness" *in internal control over financial reporting* related to the audit of the financial statements are replaced by the terms "significant deficiency" and "material weakness" as those terms are defined in SAS 112 and GAS. As for the auditor's reporting on *internal control over compliance* in a single audit, the revision to Circular A-133 states that the terms "reportable condition" and "material weakness" are replaced with the updated terminology and definitions in the AICPA auditing interpretation described in the next section of this newsletter. These changes are effective for single audits of periods ending on or after December 15, 2006. You can access the revision to Circular A-133 on the [OMB website](#).

AICPA issues Auditing Interpretation No. 1, Communicating Deficiencies in Internal Control Over Compliance in an Office of Management and Budget Circular A-133 Audit

Because Circular A-133 also requires the auditor to report on internal control over compliance related to major federal programs, similar definitions had to be developed for control deficiencies in internal control over compliance. The AICPA, working with OMB and other federal agency staff, issued AICPA Auditing Interpretation No. 1, "Communicating Deficiencies in Internal Control Over Compliance in an Office of Management and Budget Circular A-133 Audit" of SAS No. 112 (AICPA, *Professional Standards*, vol. 1, AU 9325.01-.02), which can be found on the [AICPA website](#). Definitions included in the interpretation should be used in single audits of periods ending on or after December 15, 2006.

Federal Single Audit Quality Study Released

A federal study on the quality of audits performed under Circular A-133 was issued June 22, 2007. The report titled, *Report on National Single Audit Sampling Project* (the PCIE report), was issued by the President's Council on Integrity and Efficiency (PCIE) and addressed to the OMB. Overall, the study had two goals: (1) to determine the quality of

single audits and establish a statistically based measure of audit quality; and (2) to recommend changes in single audit requirements, standards and procedures to improve the quality of single audits. The [PCIE report](#) shows that improvements are needed in many areas.

GASB Update

Since the last issue of Government e-news in April, GASB has issued several statements and proposals. Included are:

- [Statement No. 50, Pension Disclosures](#) — more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits. The provisions of Statement 50 generally are effective for periods beginning after June 15, 2007, with early implementation encouraged.
- [Concepts Statement No. 4, Elements of Financial Statements](#) — defines the basic elements of state and local government financial statements.
- [Exposure Draft, Accounting and Financial Reporting for Derivative Instruments](#) — proposed new standards for how state and local governments should report their involvement in often complex transactions known as derivative instruments. The Exposure Draft is available to [download](#) for free from the GASB website at www.gasb.org. The deadline for commenting on the GASB's proposal is October 26, 2007.
- [Statement No. 51, Accounting and Financial Reporting for Intangible Assets](#) — guidance regarding how to identify, account for, and report intangible assets. The requirements Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The GASB made significant changes to the transition provisions, based on constituent response to the proposed version of the standards, to make it easier for governments to implement.

Texas and Connecticut Challenge GASB

A [recent article in Financial Week](#) outlines recent challenges to GASB in Texas and Connecticut. In Texas, Governor Rick Perry signed legislation that allows state and local government entities to opt out of GASB 45, which requires governmental entities to account for other post-employment benefits. In July, Connecticut Governor Jodi Rell vetoed a bill which would have given the Connecticut state Comptroller the ability to prescribe GAAP for both budgeting and financial reporting.

SEC Chairman Christopher Cox Suggests More SEC Oversight of Municipal Market and of GASB

At a speech at a community town hall meeting in Los Angeles on July 18, SEC Chairman Christopher Cox discussed potential legislation that could strengthen GASB and establish a "limited regulatory regime" to improve standards governing the municipal securities market. In his remarks, Chairman Cox described the concept of creating an independent funding mechanism for GASB and establishing SEC oversight of GASB. In addition, Mr. Cox also discussed how such legislation might include requirements for governments issuing municipal securities to make their offering documents, periodic reports, and other financial information available to investors, taxpayers and others on a timely basis by tapping the power of the Internet. The complete text of the Chairman's speech is available on the [SEC website](#).

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RESOURCES

New Government Accounting Resources from the AICPA

[State and Local Governments—Audit and Accounting Guide](#)

Updated as of May 1, 2007, this Guide reflects new auditing and accounting standards and other guidance relevant to audits of state and local governments.

[2007 Revised Yellow Book: Governmental Auditing Standards \(CPE Self Study\)](#)

In 2007, the GAO revised the Yellow Book. The Yellow Book now contains a new chapter related to ethics, new discussions related to independence, updated language to reflect the incorporation of recent SASs (e.g., SAS 102 and SAS 112) and more.

[State & Local Government Strategic Briefing—2007/2008 CD-ROM](#)

This course, based on a Webcast, provides participants with a strategic look at what's important in the governmental accounting and auditing area. The program addresses recently issued GASB pronouncements impacting both preparers and auditors and feature highlights of recently issued generally accepted auditing standards, and the latest updates to the AICPA Audit and Accounting Guide, *Audits of State and Local Governments*. This presentation on CD-ROM also includes the PowerPoint slides to help sum up the discussion and drive home the important issues.

CONFERENCES

Governmental Accounting and Auditing Update Conference (GAAC)

[EAST – Washington DC, August 20-21](#)

[WEST – Tempe Arizona, September 17-18](#)

With so many regulatory changes impacting 2007 audits, interpretation and implementation are critical to compliance and accuracy. As new issues arise, understanding the ramifications of the changes and the challenges they pose becomes even more important. As the premier governmental accounting and auditing conference, this in-depth program will provide you with the training that is specific to your government area — federal (offered in DC only), state or local.

[National Governmental and Not-for-Profit Training Program](#)

Lake Buena Vista, FL — October 22-24, 2007

Design your own curriculum, select from over 50 different concurrent sessions to meet your specific objectives. This conference delivers up-to-date coverage on current and emerging issues and topics. It's an interactive training program with a number of concurrent "hands-on" workshops. You'll hear directly from the standards setters and industry leaders (including representatives from GASB, GAO, HUD, OMB and AICPA), on a variety of topics including developments in governmental accounting and auditing, advances in financial statement reporting, the latest in proposed regulations and laws on the local, state and federal government levels, what's new in the not-for-profit sector and more.

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