

National Intergovernmental Audit Forum Audit Standards Liaison Committee

www.auditforum.org

National Intergovernmental Audit Forum Strategic Plan 2005-2010,
Objective 2.1:

Monitor the agendas of the standard-setting bodies and advance the audit standards within governments and the audit profession.

Numerous entities provide oversight for the auditing community and guide the conduct of the National Forum members' audits. Some set standards for the federal government, others for state and local government, and still others for the private sector. Roles for some of the oversight organizations are currently in transition due to the Sarbanes-Oxley Act of 2002. The challenge is to stay current and to adequately understand and implement the standards set by the various entities. The National Forum has played a role in promoting standards in general, but can now also play a role in keeping its members informed, which could in turn lead to influencing the agendas of the standard-setting bodies.

Overview of Standards Setting Bodies and Current Activities or
Exposure Drafts of Interest

- Governmental Accounting Standards Board
- Government Auditing Standards
- Institute of Internal Auditors
- American Institute of Certified Public Accountants
- Public Company Accounting Oversight Board
- Financial Accounting Standards Board

Committee Members:

Randy Roberts, Robert Seabrooks, Joanne Griggs, Deborah Loveless,
Robert Dacey, George Willie, Anne Richards, Edith Pyles, Jerry Heer

Governmental Accounting Standards Board

www.gasb.org

GASB Activities

GASB establishes accounting standards and provides guidance on those standards to improve state and local governmental accounting and financial reporting.

GASB White Paper, *Users of Governmental Financial Reports Require Substantially Different Information than Users of Business Financial Reports*—Describes why and how governmental accounting is different from for-profit accounting and why it should be.

Documents Recently Issued or Becoming Effective

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*—Addresses accounting and reporting requirements for capital assets whose service utility has been diminished by physical damage, enactment of laws or regulations, technological changes or evidence of obsolescence, changes in the manner of use, and construction stoppage. Effective for financial statement periods beginning after 12/14/04.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*—Provides uniform accounting and reporting requirements for when a government offers postemployment benefits, such as healthcare, life insurance, or other benefits. Separate guidance is given for plans (and their government sponsors) and governments who participate in such plans. Effective depending on size—for plans, fiscal years 2007-2009; for employers, fiscal years 2008-2010.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*—Guides the preparation of a statistical section of a government's annual financial report when such information is voluntarily provided by the government. Effective for statistical sections prepared for periods beginning after 6/15/05.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*—Addresses the meaning of legally enforceable when determining whether to report a government's net assets as restricted or unrestricted. Effective for financial statement periods beginning after 6/15/05.

GASB Statement No. 47, *Accounting for Termination Benefits*—Establishes accounting and reporting requirements for termination benefits a government provides, whether such terminations are voluntary or involuntary. Effective for financial statement periods beginning after 6/15/05.

Upcoming Projects

GASB currently has many projects in process. Those projects include:

- Sales and Pledges of Receivables and Future Revenues exposure draft
- Pollution Remediation Obligations exposure draft
- Accounting for Medicare Part D proposed technical bulletin
- Derivatives and Hedging exposure draft
- Fund Balance Reporting in deliberations
- Intangible Assets in deliberations

Upcoming GASB Meeting Dates

- May 30-June 1, 2006 (Norwalk, CT)
- July 11-13, 2006 (Norwalk, CT)
- August 29-31, 2006 (Norwalk, CT)
- June 21, 2006—Public Hearing on Accounting and Financial Reporting for Derivatives, in conjunction with the AGA Professional Development Conference (San Diego, CA)

For More Information

Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116
(203) 847-0700
www.gasb.org

Government Auditing Standards (the “Yellow Book”) www.gao.gov

About Government Auditing Standards

Government Auditing Standards (the “Yellow Book”) contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors’ professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

To help ensure that Government Auditing Standards (the “Yellow Book”) continues to meet the needs of the audit community and the public it serves, the Comptroller General of the United States appointed the Advisory Council on Government Auditing Standards to review the standards and recommend necessary changes.

Current Projects

The 2006 Workplan for the Advisory Council includes:

- Audit quality assurance, monitoring, inspection, peer review; increased emphasis on internal quality assurance and transparency; new review time frames based on review results and annual internal inspection programs;
- Level of assurance, evidence, and data reliability in performance audits; clarification of levels of assurance based on objectives of the audit; focus shifted to “appropriate” evidence; emphasis on professional judgment;
- Expanding and clarifying the categories of nonaudit services; four proposed categories of nonaudit services; enhanced discussion of

routine nonaudit services; expanded list of examples;

- Reporting deficiencies in internal control for financial audits; revisions designed to achieve consistency among U.S. auditing standards setters;
- Ethics/professional judgment requirements; expanded discussion of the use of professional judgment in engagements; ethical responsibilities highlighted;
- Auditor’s responsibility for evaluating and disclosing financial statement restatements;
- Use of GAGAS with other standards (PCAOB, AICPA, IIA, IAASB);
- GAGAS clarification and “clean up”.

Project Timetable

Exposure draft issued for comment early May 2006.

Final 2006 version of Yellow Book issued late summer or early fall 2006.

For More Information

For technical or practice questions regarding Government Auditing Standards call:

*Michael C. Hrapsky
Senior Project-Manager,
Government Auditing Standards
U.S. Government Accountability Office
(202) 512-9535
www.gao.gov.*

*For questions directly related to Government Auditing Standards, our e-mail address is:
yellowbook@gao.gov*

The Institute of Internal Auditors

www.theiia.org

Background

The Institute of Internal Auditors (IIA) is an international professional association of more than 117,000 members with global headquarters in Altamonte Springs, Fla., United States. Throughout the world, The IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance.

The mission of the Institute of Internal Auditors is to provide dynamic leadership for the global profession of internal auditing. Two of the key activities in support of this mission are to:

- Provide comprehensive professional educational and development opportunities; standards and other professional practice guidance; and certification programs;*
- Researching, disseminating, and promoting to practitioners and stakeholders knowledge concerning internal auditing and its appropriate role in control, risk management, and governance;*

IIA Standards

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The International Standards for the Professional Practice of Internal Auditing (Standards) provide guidance for the conduct of internal auditing at both the organizational and individual auditor levels. They are the result of careful study, consultation, and deliberation about the basic principles for providing internal audit services.

Current IIA Activities of Interest to the National Intergovernmental Forum's Government Auditing Community

- There have been no recent exposure drafts or changes to the IIA standards of interest to the National Forum's membership (the last update was in 2004 and changes made are highlighted in bold on the website version of the standards)*

A list of Recent Position Papers, Responses and Exposure Drafts of General Interest

- On January 19, 2006 the IIA issued a response letter to the SEC Proposed Rule on Auditing Standard No. 4, Reporting on Whether a Previously Reported Material Weakness Continues to Exist;*
- On October 28, 2005, the IIA issued an Exposure Draft on Audit Committee Briefing Internal Audit Standard; Why They matter;*
- On June 20, 2005, the IIA issued Exposure Draft on Resourcing Alternatives for the Internal Audit Function; and*
- On June 10, 2005, the IIA issued Exposure Draft on Practical Considerations Regarding Internal Auditing Expressing an Opinion on Internal Control.*

Documents listed above are available at the IIA web site link.

For More Information

*Internal Auditors
247 Maitland Avenue
Altamonte Springs, FL 32701-4201
(407) 937-1100
www.theiia.org*

American Institute of Certified Public Accountants

Auditing Standards Board

www.aicpa.org

About Auditing Standards Board

The Auditing Standards Board (ASB) is responsible for the promulgation of auditing and attestation standards and procedures to be observed by members of the AICPA in accordance with the Institute's Bylaws and Code of Professional Conduct.

The ASB is the senior technical committee of the AICPA designated to issue auditing, attestation and quality control standards applicable to the performance and issuance of audit and attestation reports for nonissuers.

Recently Issued Statements on Auditing Standards (SASs)

- SAS No. 104 – SAS No. 111, *Risk Assessment Standards*
- SAS No. 103, *Audit Documentation*
- SAS No. 102, *Defining Professional Requirements in Statements on Auditing Standards and SSAE No. 13, Defining Professional Requirements in Statements on Standards for Attestation Engagements*

Recently-Issued Audit Interpretations

Interpretative publications are recommendations on the application of the SASs in specific circumstances, including engagements for entities in specialized industries.

- Interpretation No. 1 of AU Section 328 and Interpretation No. 1 of AU Section 332
"Auditing Interests in Trusts Held by Third-Party Trustee and Reported at Fair Value" and "Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist", respectively
- Interpretation No. 1 of SAS No. 50 (AU Section 625)
"Requirement to Consult With the Continuing Accountant"
- Interpretations to AU Section 623, Special Reports

Summary prepared by National Intergovernmental Audit Forum Standards Liaison Committee

Recently Issued Attestation Interpretations

Attestation interpretations are recommendations on the application of Statements on Standards for Attestation Engagements (SSAEs).

- Interpretation No. 6 of AT Section 101
"Reporting on Attestation Engagements Performed in Accordance with Government Auditing Standards"

Exposure Drafts

Amendment to Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles, for Nongovernmental Entities*
Comment Period Ended on June 27, 2005

Proposed Statement on Auditing Standards *Communications of Internal Control Related Matters Noted in an Audit*
Comment Period Ended on October 31, 2005

Proposed Statement on Standards for Attestation Engagements, *Reporting on an Entity's Internal Control Over Financial Reporting*
Comment Period Ends on May 19, 2006

Proposed Statement on Auditing Standards: *The Auditor's Communication With Those Charged With Governance*
Comment Period Ends on May 31, 2006

The full version of AICPA *Professional Standards* is available by visiting: www.aicpa.org.

For More Information

American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775
(212) 596-6200
www.aicpa.org

Public Company Accounting Oversight Board

www.pcaobus.org

PCAOB Activities

PCAOB establishes auditing and related attestation standards, quality control standards, ethics, and independence standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by the Sarbanes-Oxley Act of 2002 or the rules of the Securities and Exchange Commission, or as may be necessary or appropriate in the public interest or for the protection of investors.

Initial Activities of the PCAOB

PCAOB adopted Interim Auditing Standards, consisting of generally accepted auditing standards, as described in the AICPA's Auditing Standards Board's Statement of Auditing Standards No. 95, as in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

PCAOB adopted Interim Attestation Standards, consisting of the AICPA's Auditing Standards Board's Statements on Standards for Attestation Engagements, and related Interpretations and Statements of Position, as in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

In addition, prior to 2006, PCAOB issued the following three auditing standards:

- AS1--*References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*
- AS2--*An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*
- AS3--*Audit Documentation*

Documents Recently Issued or Becoming Effective

PCAOB Auditing Standard No. 4 (AS4), *Reporting on Whether a Previously Reported Material Weakness*

Continues to Exist--Establishes requirements and provides direction that apply when an auditor is engaged to report on whether a previously reported material weakness in internal control over financial reporting continues to exist as of a date specified by management. Effective February 6, 2006.

SEC approved several PCAOB ethics and independence rules concerning independence, tax services and contingent fees. The rules introduce a foundation for the independence component of the Board's ethics rules by establishing a general obligation requiring a registered public accounting firm and its associated persons to be independent of the firm's audit clients throughout the audit and professional engagement period. Rules are effective on various dates, beginning April 29, 2006.

Upcoming Projects

PCAOB areas that have been under consideration include:

- Specialists
- Risk Assessment
- Engagement Quality Review
- Communications with Audit Committees
- Principles of Reporting

Upcoming PCAOB Meeting Dates

- May 10, 2006--PCAOB and SEC Roundtable on Internal Control Reporting Requirements [Washington, DC]
- Forums on Auditing in the Small Business Environment (various)

For More Information

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803
(202) 207-9100
www.pcaobus.org

Financial Accounting Standards Board

www.fasb.org

FASB Activities

The Financial Accounting Standards Board establishes standards of financial accounting and reporting for nongovernmental entities. Such standards are intended for the guidance and education of the public, including issuers, auditors, and users of financial information.

Documents Recently Issued or Becoming Effective

FASB Statement No. 156 *Accounting for Servicing of Financial Assets*—Amends FASB Statement No. 140 to require that an entity separately recognize a servicing asset or servicing liability when it undertakes an obligation to service a financial asset by entering into a servicing contract in connection with specified situations. Effective as of the beginning of the first fiscal year that begins after September 15, 2006.

Statement No. 155 *Accounting for Certain Hybrid Financial Instruments*—Amends FASB Statements No. 133 and 140 for certain hybrid financial instruments. Effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006.

Exposure Draft--*Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*—Proposes recognition, in the statement of financial position, the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation would be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit

obligation would be the accumulated postretirement benefit obligation. Comment deadline May 31, 2006. Exposure Draft--*The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*—Proposes creation of an alternative measurement treatment for certain financial assets and financial liabilities that permits fair value to be used for both initial and subsequent measurement, with changes in fair value recognized in earnings as those changes occur, based on a contract-by-contract election. The availability of that election is referred to as the fair value option. Comment deadline April 10, 2006.

Upcoming Projects

Current FASB projects include:

- Conceptual Framework
- GAAP hierarchy
- Financial Instruments: Liability and Equity
- Financial Statement Presentation
- Mergers and Acquisitions by a Not-for-Profit Organization
- Fair Value Measurements
- Post-Retirement Benefit Obligations
- Subsequent Events

Upcoming FASB Meeting Dates

- Regular meetings (generally weekly) - usually available by webcast or telephone

For More Information

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