

# GASB - A Standards Update

Volusia/Flagler Chapter of the FGFOA

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# Agenda

- SAS 128 – Using the Work of Internal Auditors (AU-C 610)
- Audits of Group Financial Statements (AU-C 600)
- 2011 Yellow Book revisions
- GASB Updates
- GASB Exposure Draft – Fair Value Measurement and Application



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# SAS 128 – Using the Work of Internal Auditors (AU-C 610)

Issued February 2014

- The external auditor may be able to use the work of an internal audit department:
  - Level of competency of internal audit function
  - IA function's organizational status
  - IA applies a systematic and disciplined approach, including quality control
- Eff for periods ending after 12/15/14



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# Audits of Group Financial Statements

- Group Financial Statements
  - Include the financial information of more than one component
    - Encompasses business activities in addition to separate entities
    - May include subsidiaries, geographical locations, divisions, investments, products or services, functions, processes, or component units of state or local governments



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# Audits of Group Financial Statements

Where prior auditing guidance focused on the interaction between auditors, AU-C 600 focuses on understanding the unique characteristics of the group reporting entity and how the auditor should obtain sufficient audit evidence to render an opinion on the group financial statements.



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# Audits of Group Financial Statements

- Group Auditor is Responsible For:
  - Acceptance & continuance
  - Overall audit strategy and Audit Plan and Understanding of Group, Components and their environments
  - Determining whether to make reference to the Component Auditor in the Group Financial Statements auditor's report



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# Audits of Group Financial Statements

- **Group Auditor is Responsible For:**
  - Verifying the appropriate financial reporting framework
  - Establishing materiality (including aggregate considerations)
  - Review for subsequent events
  - Communicating with the Component Auditor



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# Audits of Group Financial Statements

- Significant Components:
  - Due to Financial Significance
    - Audit financial information performed based on Component materiality
  - Due to Significant Risks
    - Audit selected (higher risk) information



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# Audits of Group Financial Statements

- Components that are not Significant (i.e., not audited at the Component level):
  - Group Auditor should perform analytical procedures at the group level

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# 2011 Yellow Book Revisions

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# Implementation Challenges

- **Application of the conceptual framework**
- **Identification threats to independence**
- **Evaluation of nonaudit services**
- **Documentation**

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# Application of the Conceptual Framework

- **Utilized when**
  - Start of a new audit
  - Assignment of new staff to an ongoing audit
  - Acceptance of a nonaudit service at an audited entity
  - Other based on facts and circumstances
- **Should evaluate threats individually and in the aggregate**



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# Threats to Independence

- **Broad categories of threats**
  - Self interest threat
  - Self review threat
  - Bias threat
  - Familiarity threat
  - Undue influence threat
  - Management participation threat
  - Structural threat

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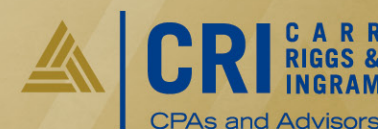
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# Evaluation of Nonaudit Services

- Required to evaluate effect of providing nonaudit services before agreeing to provide them
- Identify all nonaudit services and evaluate for threats
  - Key to determination is consideration of management’s ability to effectively oversee the nonaudit services
    - Possesses suitable skill, knowledge, or experience AND
    - Understands services sufficiently to oversee them
- Apply safeguards to eliminate or reduce to acceptable level
  - Self review
  - Management participation



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# Documentation - Independence Considerations

- **Appropriate documentation of independence required by QC and Assurance Requirements of GAGAS**
- **Documentation required by GAGAS independence standard**
  - Threats requiring safeguards, along with safeguards applied
  - Safeguards if audit organization structurally located within government entity and considered independent based on those safeguards
  - Consideration of entity management's ability to effectively oversee a nonaudit services
  - Auditor's understanding with audited entity for which nonaudit services will be performed

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# GASB Updates

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# GASB 65

## Background:

- Changes to financial reporting to improve clarity by implementing the appropriate use of the financial statement elements deferred outflow of resources and deferred inflows of resources.
- Effective for periods beginning after 12-15-12



# GASB 65

Impacts to accounting & financial reporting of:

- Nonexchange transactions
- Sales of future revenues & intra-entity transfers of future revenues
- Leases
- Use of the term “deferred”
- Refundings of debt

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# GASB 67 & 68

## Background:

- GASB 67 – Financial Reporting for Pension Plans
- GASB 68 – Accounting and Financial Reporting for Pensions
- Includes Defined Benefit Pension Plans and Defined Contribution Pension Plans that are administered through trusts



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# GASB 67 & 68

## Types of Plans:

- Single Employer Plans
- Multiple Employer Plans
  - Agent Multiple Employer Plans
  - Cost Sharing Multiple Employer Plans



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# GASB 67 & 68

Statement 68 changes accounting and financial reporting for employers in single employer and agent plans with regard to:

- The amount reported as a liability by the employer
- The amount reported as pension expense by the employer
- The discount rate used to calculate the PV of the employer's obligation
- The method used by the actuary to allocate costs
- The technique used by the actuary to compensate for changes in assumptions and for differences between assumptions and actual results



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# GASB 67 & 68

Statement 68 changes accounting and financial reporting for employers in cost sharing plans

- Report a net pension liability based on its proportion of the collective net pension liability of all of the governments participating
- The proportion should be consistent with the method used to assess contributions (percentage of payroll in most cases)



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# GASB 67 & 68

## AU-C 9805 – Auditing Interpretation No. 1 – *Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan*

- Provides guidance to plan (not employer) auditors on auditing and reporting on schedules such as a schedule of employer allocations and either a schedule of pension amounts by employer or a schedule of collective pension amounts

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# GASB 67 & 68

## AU-C 9500 – Auditing Interpretation No. 2 – *Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan*

- Provides guidance on when an auditor of a cost-sharing plan participating employer can rely on information (schedules) received from a plan auditor; therefore, determining whether to give an unmodified or possibly modified opinion



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# GASB 67 & 68

## AU-C 9600 – Auditing Interpretation No. 1 – *Auditor of Participating Employer in a Governmental Pension Plan*

- Clarifies that a governmental pension plan is not considered a component of the employer for purposes of AU-C 600. Therefore, it would not be appropriate for an employer auditor to make reference to the audit report of the governmental pension plan auditor



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# GASB 69

## Government Combinations and Disposals of Government Operations

- Combinations - mergers vs. acquisitions
- Transfers of operations
- Disposals of operations

Effective for periods beginning after 12-15-13

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# GASB 70

## Accounting and Financial Reporting for Nonexchange Financial Guarantees

- Specifies the information required to be disclosed by governments that extend nonexchange financial guarantees.
- Outlines new information to be disclosed by governments that receive nonexchange financial guarantees.

Effective for periods beginning after 06-15-13



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# GASB 71

## **Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68**

- Objective – to address issues regarding the application of transition provisions of GASB Statement No 68

Effective for periods beginning after 06-15-14\*

\* *To be implemented concurrently with GASB No. 68*

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# GASB Exposure Draft

## Fair Value Measurement and Application

- Issued May 5, 2014 – Comment period closed on August 15, 2014
- Public hearing has not yet been scheduled
- If finalized, would apply to periods beginning after June 15, 2015

This proposed statement would provide guidance for determining a fair value measurement for reporting purposes. *It would also provide application guidance for certain investments and related disclosures.*



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# GASB Exposure Draft

## Fair Value Measurement and Application

- Propose to establish a hierarchy of inputs to valuation techniques used to measure fair value:
  - **Level 1** = investment has quoted prices in active markets for identical assets or liabilities
  - **Level 2** = investment is valued on inputs other than quoted prices included within Level 1 that are observable for the asset or liability (directly or indirectly)
  - **Level 3** = investment has unobservable inputs



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# GASB Exposure Draft

## Fair Value Measurement and Application

- An investment would be defined as a security or other assets that a government holds primarily for the purpose of income or profit **and** with a present service capacity that is based solely on its ability to generate cash or to be sold to generate cash.

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# GASB Exposure Draft

## Fair Value Measurement and Application

- Excluded investments:
  - Money market investments
  - 2a7-like external investment pools
  - Investment in life insurance contracts
  - Common stock meeting the criteria for applying the equity method
  - Unallocated insurance contracts
  - Synthetic guaranteed investment contracts.



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# GASB Exposure Draft

## Fair Value Measurement and Application

- Draft standard has potential impact to existing disclosures made in compliance with Statements 40 and 53, especially as they relate to Level 3 investments
- Ultimately, the Board concluded the risk disclosures already required by Statements 40 and 53, additional quantitative disclosures for Level 3 fair value measurements are not necessary
- Alternative investments measured using NAV per share (or equivalent) will likely require additional disclosures.



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# Questions?

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