

# THE PPC GOVERNMENTAL UPDATE

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## AICPA Issues SAS No. 137 on Other Information



In July 2019, the AICPA issued SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, which supersedes AU-C 720, *Other Information in Documents Containing Audited Financial Statements*. The superseded standard is now codified in AU-C 720A, and SAS No. 137 is codified in AU-C 720.

In accordance with the ASB's strategic objective to converge its standards with those of the International Auditing and Assurance Standards Board, the new SAS is modeled after ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. The revised standard clarifies but doesn't significantly change existing guidance on the auditor's responsibility for other information. This change is especially important for governmental audits because governmental financial statements often include other information. The following paragraphs discuss some of the clarifications made by the SAS.

### Narrow the Scope of Procedures Surrounding Other Information

Under the extant standards, the ASB believes the auditor's procedures are frequently applied too broadly to other information, so SAS No. 137 seeks to clarify the scope of documents that would be subject to the auditor's procedures. The title of the revised standard is changed to focus the auditor on other information included in *annual reports*. AU-C 720.12 defines an *annual report* as a document (or documents), generally prepared annually, as required by law, regulation, or custom, by management or those charged with governance, to provide owners and/or other stakeholders with information about the entity's operations, financial results, and financial position. It contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and often includes information about other developments, the entity's future outlook, risks and

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uncertainties, a statement from the entity's governing body, and reports covering governance matters.

The term *annual report* includes *annual reports of governments*. AU-C 720.A9 notes that even if a document is referred to as an *annual report*, it might not meet the new definition. AU-C 720.A10 notes that the term *annual reports of governments* includes comprehensive annual financial reports or other financial reports that include the government's financial statements and the auditor's report thereon. AU-C 720.13 requires the auditor to have a discussion with management and obtain a written acknowledgment as to which document(s) comprise the annual report and the manner and timing of issuance of those document(s).

## Read and Consider Other Information

After determining what is other information and reading it, AU-C 720.11 indicates that the auditor's objectives are to consider if there are material inconsistencies between (1) the other information and the financial statements and (2) the information and the knowledge that the auditor obtained during the audit. If one or more material inconsistencies exist or if the auditor becomes aware that the other information appears to be materially misstated, the auditor should respond appropriately. The SAS provides guidance on what constitutes a misstatement of other information.

Additionally, the SAS provides guidance regarding other information that may omit or obscure information that may be necessary to understand a matter. The SAS states, at AU-C 720.18, that the auditor is *not* responsible for testing the completeness of the other information.

## Effect on the Report

The new SAS requires the auditor's report to include a separate section with an appropriate heading such as "Other Information." Extant standards don't require the auditor to reference the other information in the auditor's report. The other information report section should include the following information:

- A statement that management is responsible for the other information.
- Identification of the other information, specifically noting that it doesn't include the financial statements or auditor's report.
- A statement that the auditor's opinion doesn't cover the other information and the auditor expresses no opinion or assurances on it.
- A statement that the auditor is responsible for reading the other information, considering any material

inconsistency with the audited financial statements or other material misstatements.

- A statement that any uncorrected material misstatements of the other information are required to be described in the auditor's report.
- If applicable, a statement that the auditor has concluded that an uncorrected material misstatement of the information exists and a description thereof.

## Effective Date

SAS No. 137 is effective for audits of financial statements for periods ending on or after December 15, 2020, with earlier implementation not permitted. Thus, it has the same effective date as SAS No. 134.



# GASB Issues ED on 457 Deferred Compensation Plans

Last summer, the GASB issued an exposure draft of a proposed statement, *Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32* (the proposed Statement).

## Background

Under existing guidance, Section 457 plans are explicitly excluded from GASB pension standards. At the issuance of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the GASB considered Section 457 plans as tax-deferred employee savings plans rather than pensions, primarily because Section 457 plans typically did not have employer contributions. However, since the issuance of Statement No. 32, the characteristics of certain Section 457 plans have changed, due in part to revisions to the Internal Revenue Code. GASB's research indicated that certain Section 457 plans are similar in nature to pension plans.

## Proposed Requirements

The proposed Statement recommends that if a Section 457 plan meets GASB's definition of a pension plan, then the appropriate GASB pension standards should be applied to the financial reporting for the plan and for the benefits provided through the plan.

The proposed guidance would supersede the remaining provisions of Statement No. 32, as amended, regarding investment valuation requirements for Section 457 plans. The proposal would also require investments of all Section 457 plans be valued as of the end of the plan's reporting period in all circumstances, as is required for all other postemployment benefit plans.

## Why Is This Better?

The GASB expects the proposed Statement to enhance the relevance, consistency, and comparability of accounting and financial reporting by pension plans, including Section 457 plans, and by the governments that provide benefits through those plans.

## Proposed Effective Date

The proposed statement would be effective for fiscal years beginning after December 15, 2020, with early implementation encouraged by the GASB.

## Comment Deadline

Comments on the ED were due by September 27, 2019.

### Practical Consideration:

The full text of the Exposure Draft is available on Checkpoint at [checkpoint.riag.com](http://checkpoint.riag.com) for users that subscribe to GASB content, and at [www.gasb.org](http://www.gasb.org).



# HUD Audit Submissions and REAC's Position on Restricted Cash

**U**.S. Department of Housing and Urban Development (HUD) recently changed its position on how it would reflect restricted cash in its web-based annual financial reporting system. Financial statement preparers and their auditors need to be aware of this information for December 31, 2019, financial statements and their audits.

## Background

All entities that receive HUD assistance, both for-profit and nonprofit, are required to submit an annual financial reporting package via the Financial Assessment Subsystem (FASSUB) on the Real Estate Assessment Center (REAC) website. The reporting package includes the annual financial statements, supplementary information, owner/management agent certification, and the auditor's reports.

## Restricted Cash Presentation Issue

The REAC generally updates the FASSUB financial data templates as necessary for changes in accounting guidance. For example, the FASSUB financial data templates were recently updated for changes to net asset accounts in accordance with the requirements in ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Recently, the REAC had also indicated that the FASSUB financial data templates would be updated to reflect the changes to restricted cash in the statement of cash flows in accordance with ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which is effective for nonpublic entities for fiscal years beginning after December 15, 2018 (i.e., calendar years ending December 31, 2019). However, in October 2019, the REAC announced that it had decided not to update the FASSUB and supplementary cash flows financial data template for ASU 2016-18.

The REAC financial data template on cash flows will continue to report the changes in escrow and reserve for replacement accounts in the investment section of the statement of cash flows rather than including it in total cash, cash equivalents, and restricted cash as of the beginning and end of the period. The REAC discussed the matter with various CPA firms and received conflicting opinions on the implications of implementing ASU 2016-18 for HUD entities primarily because CPAs have varying definitions of what constitutes restricted cash; ASU 2016-18 does not provide a definition for restricted cash. As a result of these differing interpretations and the REAC's need for information concerning changes in escrow and reserve for replacement accounts, the REAC is choosing not to make any changes to the supplementary statement of cash flow data related to ASU 2016-18.

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**Practical Consideration:**

*PPC’s Guide to HUD Audits* includes an illustration of financial statements and supplementary information that has been updated for ASU 2016-18 in Appendix 3B. At the time that *Guide* was published, the REAC had indicated it would be updating the FASSUB for ASU 2016-18. Users of that product should be aware, as discussed in this article, that the REAC subsequently changed its position and will not be updating the FASSUB for ASU 2016-18. Supplementary statement of cash flow data should continue to be reported as in previous years rather than as illustrated in Appendix 3B.

The REAC is aware that this may result in different amounts of total cash, cash equivalents, and restricted cash reported in the statement of cash flows in the basic financial statements versus in the supplementary statement of cash flow data. However, the REAC believes there may have been differences either way based on varying interpretations of the definition of restricted cash and implementation of ASU 2016-18 by CPAs. The REAC’s notice also indicates that the REAC does not believe the differences in total cash, cash equivalents, and restricted cash in the basic statement of cash flows

and the supplementary statement of cash flow data will be material enough to warrant a modified opinion on the supplementary information reported in the auditor’s report.

**Our Take**

We believe that even if the amounts reported as total cash, cash equivalents, and restricted cash equivalents in the statement of cash flows (reported in accordance with ASU 2016-18) differs materially from the amount reported in the supplementary statement of cash flow data, the auditor would be able to reconcile the amounts reported in the basic statement and the supplementary information and, therefore, would be able to provide an unmodified in-relation-to opinion on the supplementary information.

**Practical Consideration:**

Further details about the REAC’s position related to restricted cash and ASU 2016-18 may be found on the REAC’s website at <https://www.hud.gov/sites/dfiles/PIH/documents/REACsPositiononRestrictedCashASU2016-18.pdf>.

