

## THE PPC

## GOVERNMENTAL UPDATE

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## COVID-19 Extensions Related to Governments



This spring, as shelter-in-place orders were put in place across the country, a number of different entities took action to extend deadlines of interest to local governments and their auditors. The following is a summarized list of extensions of which you should be aware. Please access the individual entities' websites for specific details.

### Auditing Standards Board (ASB)

On April 20, 2020, the ASB voted to defer the effective date of the following new SASs:

- No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended
- No. 135, *Omnibus Statement on Auditing Standards—2019*
- No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
- No. 138, *Amendments to the Description of the Concept of Materiality*
- No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*

- No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

Because of the COVID-19 auditing and accounting challenges smaller and midsize firms are facing, the ASB voted to defer the effective dates of SAS Nos. 134–140 from periods ending on or after December 15, 2020, to periods ending on or after December 15, 2021 (one-year delay), and to allow for early implementation. [www.aicpa.org/research/standards/auditattest/asb.html](http://www.aicpa.org/research/standards/auditattest/asb.html)

### Professional Ethics Executive Committee (PEEC)

On May 5, 2020, PEEC deferred the effective date by one year of AICPA ethics interpretation ET 1.224.020, *State and Local Government Client Affiliates*, from fiscal years beginning after December 15, 2020, to fiscal years beginning after December 15, 2021, with earlier implementation permitted. [www.aicpa.org/interestareas/professionalethics/community/peec-project-activity.html](http://www.aicpa.org/interestareas/professionalethics/community/peec-project-activity.html)

### In this Issue:

- COVID-19 Extensions Related to Governments
- AICPA Issues New Q&A Sections
- GASB Proposes Financial Reporting Changes for Government 457 Plans



## Governmental Accounting Standards Board (GASB)

On May 8, 2020, the GASB voted to issue its newest statement, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which, in light of the COVID-19 pandemic, provides to governments temporary relief from certain newer accounting and financial reporting requirements. The effective date of certain Statements and Implementation Guides—up through GASBS No. 93, *Replacement of Interbank Offered Rates*, and Implementation Guide No. 2019-3, *Leases*—that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, have been deferred by one year, with the exception of GASBS No. 87, *Leases*, which has been deferred by 18 months. [www.gasb.org](http://www.gasb.org)

## Single Audits

The OMB has granted an automatic six-month extension for single audit reporting package and data collection form submissions for fiscal year ends through June 30, 2020, for federal award recipients subject to the Uniform Guidance who have experienced a loss of operational capacity and increased costs due to COVID-19. The delayed submission would not preclude the grantee from being a low-risk auditee. The reason for the delayed submission ought to be documented and a reference to OMB Memo M-20-17 included in the reporting package. [www.whitehouse.gov/wp-content/uploads/2020/03/M-20-17.pdf](http://www.whitehouse.gov/wp-content/uploads/2020/03/M-20-17.pdf)

The separate but related OMB Memo M-20-11 provides relief from certain federal provisions for award recipients, including a 12-month extension of the single audit reporting package and data collection form submissions for recipients receiving virus preparation and response funding with specific agency approval. [www.whitehouse.gov/wp-content/uploads/2020/03/M-20-11.pdf](http://www.whitehouse.gov/wp-content/uploads/2020/03/M-20-11.pdf)

## HUD Audits

*Multifamily*—March 31 and April 30 year-end audits, including agreed-upon procedures engagements, of multifamily project owners subject to the HUD Audit Guide were previously provided a 30-day extension. That extension has now been extended to June 30, 2020. This notice can be found by logging into HUD's Financial Assessment Subsystem. [www.hud.gov/program\\_offices/public\\_indian\\_housing/reac/products/mf\\_news](http://www.hud.gov/program_offices/public_indian_housing/reac/products/mf_news).

*Lenders*—Audits, including agreed-upon procedures engagements, if applicable, of lenders subject to chapters 6 or 7 of the HUD Audit Guide with an original due

date of March 31 have been extended to April 30. [www.ginnimae.gov/issuers/program\\_guidelines/Lists/MBSGuideAPMsLib/Attachments/104/APM\\_20-02.pdf](http://www.ginnimae.gov/issuers/program_guidelines/Lists/MBSGuideAPMsLib/Attachments/104/APM_20-02.pdf).

*Public Housing Authorities*—Unaudited submissions by public housing authorities for years ending December 31, 2019, and March 31, 2020, have been automatically extended by six months to August 31, 2020, and November 30, 2020, respectively. [www.hud.gov/sites/dfiles/PIH/documents/COVID19\\_Round3-FAQs\\_04-22-20.pdf](http://www.hud.gov/sites/dfiles/PIH/documents/COVID19_Round3-FAQs_04-22-20.pdf).



## AICPA Issues New Q&A Sections

In December 2019, the AICPA added sections 6950.23 and 6950.24 to their Technical Q&As for state and local governments. These sections address a specific situation where the only identified fiduciary activity of a governmental entity is omitted from the financial statements and, thus, the auditor's report, because it is considered immaterial. This situation raises questions for the auditor about how to determine materiality when such information has been eliminated from the applicable opinion unit.

## Background

GASB Statement No. 84, *Fiduciary Activities*, which became effective for reporting periods beginning after December 15, 2018, changed the framework for evaluating whether activities are fiduciary in nature. In addition, the Statement clarified that the reporting of fiduciary activities applies to special-purpose governments engaged in business-type activities (BTAs). As a result, governments need to consider whether to report their BTAs.

*The Preparer's View of Materiality*—Preparers of governmental financial statements have some guidance for assessing materiality from GASB Implementation Guide 2015-1, Q7.4.1, as amended. Preparers may consider relevant qualitative factors and the relationship of the types of fiduciary funds to other appropriate information in the financial statements. The government's quantitative materiality determination for each type of fiduciary fund could be made based on (1) the significance of those funds to all fiduciary funds of the reporting government or (2) the significance of those funds to all funds of the government.

*The Auditor's View of Materiality*—Auditors, on the other hand, consider materiality for governmental financial statement audits at the opinion-unit level. The opinion units affected by the omission of fiduciary activities are either the aggregate remaining fund information opinion unit or the aggregate discretely presented component unit and remaining fund information opinion unit.

## The Situation—Special-Purpose Government Omits Only Immaterial Fund

Section 6950.24 of the Technical Q&As provides a situation where a BTA has not previously reported any fiduciary activities, and in implementing GASB No. 84 and applying GASB Implementation Guide 2015-1, Q7.4.1, as amended, considers its sole fiduciary fund to be immaterial and does not report on it. How should the auditor respond?

### Guidance Provided for the Auditor

First, the auditor should assess management's assertion. Management's assertion is that the fiduciary fund is immaterial, both quantitatively and qualitatively, based on relevant GAAP. Looking to the guidance in GASB Implementation Guide 2015-1, Q7.4.1, as amended, remember that the government can assess quantitative materiality of the fiduciary fund type based on the significance of those funds to all funds of the government. In all cases, qualitative materiality aspects should be appropriately considered.

If the auditor agrees with management's assessment of materiality or lack thereof, the auditor does not need to perform any further audit procedures related to the omitted fund. Also, there is no need for the auditor to reference the fiduciary fund omission in the auditor's report.

Final note: the auditor's materiality consideration at the opinion-unit level is not applicable because there is no aggregate remaining fund information opinion unit in this situation.

#### Practical Consideration:

The full text of the new Q&A sections is available on Checkpoint at [checkpoint.riag.com](https://www.checkpoint.riag.com) for users that subscribe to the content, and at [www.aicpa.org](https://www.aicpa.org).



# GASB Proposes Financial Reporting Changes for Government 457 Plans

In June 2019, the Governmental Accounting Standards Board (GASB) released a new exposure draft entitled *Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32*. Additional questions were raised following the end of the comment period resulting in additional outreach and deliberations and the issuance of a revised exposure draft entitled *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* on March 5, 2020.

### Background

When GASBS No. 32 was issued in 1997, Section 457 plans were removed from the financial reporting requirements because they were more similar to tax-deferred employee savings plans and usually did not have employer contributions. However, more current GASB research has suggested that certain Section 457 plans are now more similar in nature to pension plans because employers are now contributing to them. The exposure draft does note, though, that plans with employer contributions are still less common than those without. If the exposure draft is adopted, the guidance under GASBS No. 32 for such plans would be superseded by the guidance in GASBS Nos. 67 and 68.

### Purpose of the Proposed Statement

The primary purpose of the proposed Statement would be to:

- Increase consistency and comparability in reporting when fiduciary component units do not have a governing board and the primary government performs those duties.
- Mitigate costs of reporting defined contribution pension plans, defined contribution OPEB plans, and other plans as component units in fiduciary fund financial statements.

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- Improve the relevance, consistency, and comparability of the accounting and financial reporting for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans.

The proposed Statement would:

- Clarify that the absence of a governing board would be treated the same as the appointment of a voting majority of a governing board when the primary government is financially accountable.
- Modify the application of certain component unit criteria as they relate to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans.
- Establish accounting and financial reporting requirements for all Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans.
- Modify the investment valuation requirements for all Section 457 plans.

- Apply to the financial statements of all state and local governments.

## Proposed Effective Date

The proposed Statement would generally be effective for fiscal years beginning after June 15, 2021, with early application encouraged. However, certain provisions related to GASBS No. 84 to do with the absence of a governing board being treated the same as appointment of a voting majority of a governing board would be effective upon issuance.

### 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).

