

THE PPC GOVERNMENTAL UPDATE

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GASB Issues GASBS No. 98, *The Annual Comprehensive Financial Report*



In October 2021, the Governmental Accounting Standards Board (GASB) issued GASBS No. 98, *The Annual Comprehensive Financial Report*. The standard establishes the term *annual comprehensive financial report* and its acronym, *ACFR* (“ack-fer”), for use in generally accepted accounting principles for state and local governments. The term will be used in place of *comprehensive annual financial report* and its CAFR acronym.

Reason for the Change

The GASB received concerns from stakeholders about the acronym for “comprehensive annual financial report.” It was reported that the pronunciation of the acronym sounds like a profoundly objectionable racial slur directed at Black South Africans. In addition, it has been reported that pronunciation of the acronym also created problems in certain Muslim communities. In the interest of promoting inclusiveness, GASB committed to changing the acronym to one that would avoid unintended meaning. The

Government Finance Officers Association recently implemented this same acronym change in its popular certificate program.

History of the Existing Term

The term *comprehensive annual financial report* dates to 1979, established by the National Council on Governmental Accounting (NCGA) in NCGA Statement 1, and was adopted by GASB in GASB Statement No. 1 in 1984. The Statement will amend several NCGA statements, interpretations, and implementation guides and GASB pronouncements.

Consideration of Other Terms

The GASB received several dozen possible terms from stakeholders to replace the existing term; however, for one reason or another, the other proposed terms were not acceptable. A discussion of the consideration of those terms and the conclusions are presented in Appendix B to GASBS No. 98.

In this Issue:

- GASB Issues GASBS No. 98, *The Annual Comprehensive Financial Report*
- Planning Your Next COVID Audit
- Education Stabilization Fund (84.425) Update

Effective Date

The effective date is for fiscal years ending after December 15, 2021, with earlier application encouraged. Due to the reasons for the change, most in the governmental community are making this change immediately.

Practical Consideration:

GASBS No. 98 can be found on Checkpoint at [checkpoint.riag.com](https://www.checkpoint.riag.com) for users that subscribe to the content, and at [gasb.org](https://www.gasb.org).



Planning Your Next COVID Audit

As auditors begin to plan for 2021 calendar year-end or 2022 fiscal year-end audits, they will audit year two of the pandemic. But even with one year of pandemic auditing under their belts, global economic and health issues continue to evolve, resulting in numerous factors to consider when planning and performing audits and identifying risks that could result in financial statement misstatements or material noncompliance.

Planning

The following should be considered by auditors when planning their engagements:

Timing and Scope. Overall planning procedures should consider both auditor and client resources and changes to audit plans required because operations continue to be shut down or curtailed and employees continue to work remotely. The timing and scope of the audit may have to change. Access to management, personnel, and client records may be limited.

Internal Controls. There may have been changes in internal controls and processes because of remote working and/or reductions in staff. Changes in internal controls (entity-level and activity-level) may make testing of controls difficult or impossible, and a substantive approach to the audit may be required. Reduced segregation of duties can cause control breakdowns and greater potential for management override and fraud. It may not be possible to meet with clients face to face, and video conferencing may have to be used for meetings and fraud inquiries.

Acceptance and Continuance. Client acceptance and continuance procedures should consider any changes

in the client's organization, operations, financial results, financing, and plans. Risk assessment procedures should consider new opportunities or incentives for fraud. Many entities are struggling financially, so there are more operational and liquidity pressures on management and employees. In addition, closures and shutdowns and employee furloughs and terminations put new pressures on the workforce and can create new opportunities and incentives to commit fraud. Risk areas that may be greater due to the pandemic include:

- Accounting estimates
- Compliance with laws and regulations
- Going concern uncertainties
- Subsequent events

Audit Team. Audit team changes may be necessary, including the use of more experienced auditors and partners, consultations within the firm, and specialists to address new and more complex issues.

Materiality. Materiality levels may change based on changes in the government's operations, receipt of new federal awards, or the needs of users of its financial statements.

Analytical Procedures. Analytical procedures may not be sufficient because comparisons between the current and prior periods are not meaningful due to the pandemic's impact. This would apply to both preliminary and substantive analytics. It may be more difficult to develop expectations.

Understanding the Entity. Many governmental entities have made significant changes to their operations in response to COVID-19, which may require adjustments to the audit plan. Auditors may need to discuss with management up front the following: significant new or unusual transactions; supply chain changes; lost customers or major taxpayers; decreases in revenues due to lower sales taxes, property taxes, or permit fees; new types of expenditures; changes in strategic plans; new borrowings or liquidity issues; debt covenant or grant compliance issues; new contingencies; litigation changes; new contracts; employee or management turnover; or system changes.

Practical Consideration:

PPC's *Guide to Audits of Local Governments*, at **ALG-CX-6.3**, "COVID-19 Audit Considerations," provides a detailed checklist and discussion of COVID-19-related audit issues.

Compliance with Laws and Regulations. In assessing risks of material misstatement of the financial

statements, auditors should consider the risk of non-compliance with laws and regulations, including new COVID-19 federal awards, such as the CARES Act. The audit plan should include procedures to review the specific compliance requirements and related controls over them to provide reasonable assurance of detecting noncompliance. These procedures include understanding and evaluating how the client is complying with the relevant provisions of laws, regulations, contracts, and grant agreements, along with the accounting for new awards and expenditures.

Financial Statements

Financial statement areas where COVID-19 may have greater audit implications:

Revenue Recognition. Revenue recognition issues related to changes in customer preferences, contract modifications, discounts and refund concessions, and changes in credit policies or payment terms should be considered. Related collectability of accounts receivable should also be considered.

Practical Consideration:

The GASB issued Technical Bulletin No. 2020-1, *Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Disease*, that provides guidance on several specific issues such as loss of revenue, subsequent events, paycheck protection program loans, etc. The bulletin is available at www.gasb.org under "Standards & Guidance/Pronouncements."

Estimates and Fair Values. Budgeting and forecasting of revenues, expenditures, and cash flows have implications for accounting estimates and fair values. Uncertain cash flows affect the discount rates used.

Investments. Investment fair values and financial instruments that qualified for hedge accounting can be negatively affected by market changes.

Capital Assets. Useful lives and related depreciation may change due to changes in operations. There may also be potential impairment of long-lived assets and leased assets.

Intangible Assets. Intangible assets may require impairment testing because of COVID-19 triggering events.

Accrued Liabilities. Accrued liabilities may be needed for employee terminations, changes in benefits, and payroll tax payment deferrals. Changes to contingency accruals should also be considered.

Long-term Debt. If a governmental entity (for example, a not-for-profit entity that reports in accordance with GASB standards) received a forgivable loan pursuant to the Paycheck Protection Program, the probability of loan forgiveness should be considered. There may be debt classification issues for existing debt for failures to meet debt covenants, and there may be modification or debt extinguishment that occurred because of financial difficulties.

Reporting

In response to COVID-19, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to delay the effective dates of SAS Nos. 134–140 for one year, until years ending on or after December 15, 2021. The new audit reports will need to be used for 2021 year-end audit engagements.

Practical Consideration:

AICPA resources on COVID-19 are available at www.aicpa.org/topic/small-business-resiliency.



Education Stabilization Fund (84.425) Update

The AICPA's Governmental Audit Quality Center (GAQC) recently alerted its members regarding a memo that was sent by the Department of Education (ED) to recipients of the Education Stabilization Fund (Assistance Listing 84.425) (ESF). The memo addresses how Assistance Listings that use alpha characters to identify subprograms, such as ESF, should be reported on the data collection form.

Background Information

ESF has been assigned Assistance Listing number 84.425, and recipients will note that depending on the specific award within that program, the Assistance Listing number has been assigned a letter as a suffix. For example, the Governor's Emergency Education Relief Fund has been assigned Assistance Listing 84.425C and the Higher Education Emergency Relief Fund—Historically Black Colleges and Universities has been assigned 84.425J. Regardless of the suffix assigned, ESF should be considered as a single program for major program determination and is not to be included as part of the Student Financial Assistance cluster.

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The 2021 Compliance Supplement includes separate sets of compliance requirements for ESF depending on the suffix identified. The following is a summary of those requirements, as outlined in Part 4 of the Compliance Supplement:

- Subject to audit under Section 1, Elementary and Secondary Education (84.425A, 84.425C, 84.425D, 84.425H, and 84.425R)
- Subject to audit under Section 2, Higher Education Emergency Relief Fund (HEERF) (84.425E, 84.425F, 84.425J, 84.425K, 84.425L, 84.425M, 84.425N, and 84.425S)
- Subject to single audit under the framework included in Part 7 of the Compliance Supplement; auditors should also refer to Notices Inviting Applications, if applicable, for the program(s) and grant documents (84.425B, 84.425G, 84.425P, 84.425U, 84.425V, 84.425W, 84.425X, and 84.425Y)

The Compliance Supplement states that, for purposes of the SEFA presentation, recipients should identify the individual program(s) by including each separate Assistance Listing number with the applicable suffix. A total for ESF should also be presented.

The guidance for ESF programs subject to audit under Section 2, in Part 4 of the 2021 Compliance Supplement, was updated for implications resulting from the American Rescue Plan Act of 2021 (ARP). Section 1 guidance in the 2021 Compliance Supplement had not been updated for ARP. However, those requirements were addressed in the recently released Compliance Supplement Addendum 1, as well as in updates to subprograms 84.425U and 84.425X. Addendum 1 will be covered in a future article.

ED Memo on the Data Collection Form

On August 4, 2021, ED sent a memo to recipients of ESF funds with specific requirements for identifying ESF programs on the data collection form, which is effective for all single audit submissions that include ED programs as of August 9, 2021. The GAQC has alerted its members that they have received information that ED has already contacted certain recipients and requested them to resubmit their data collection forms using the updated guidance. In part, the memo states:

Specifically, in order to more precisely identify grant program expenditures, the Department requests that grantees include on the Schedule of Expenditures of the Federal Awards (SEFA) page of Form SF-SAC, if applicable: (1) whether the program is novel coronavirus 2019 (COVID-19) relief assistance (see list below of COVID-19 programs); and (2) the subprogram ALN alpha.

The memo also provides two example illustrations as to how they expect recipients to comply with the new guidance on the data collection form.

Practical Consideration:

While individual recipients of ESF should have received the memo, it is currently posted by a recipient at https://dpi.wi.gov/sites/default/files/imce/sfs/Single_Audit_Submission_Reporting_subprogram_ALN_alphas_in_the_FAC.pdf. Recipients must review it carefully to ensure compliance with the new requirements.

