Nonprofit A&A Update

June 17, 2020

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Agenda

- COVID Delays
- Nonprofit Rev Rec
- Nonprofit ASU Update
- Yellow Book 2018

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COVID Delays

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Issued Delays

- ASU 2020-05
- GASB 95
- SAS 141
- Peer Review
- PEEC
- Yellow Book CPE
- Uniform Guidance

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Nonprofit Revenue Recognition

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ASU 2018-08

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

- Issued June 2018

- Addresses:
  - Contribution vs. Exchange
  - Condition vs. Restriction

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Contribution vs. Exchange

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Contribution vs. Exchange

- In determining whether a transfer of assets is an exchange transaction in which a resource provider receives commensurate value in return for the resources transferred or a contribution, the type of resource provider does not factor into the determination

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Contribution vs. Exchange Cont'd

- Evaluate the terms of an agreement

Consider:

- Resource provider is NOT synonymous with the general public
- Execution of resource providers mission or positive sentiment is NOT commensurate value
- Expressed intent
- Discretion in determining amount of transfer
- Potential penalties

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Existing Guidance

- Indicators Useful in Distinguishing Contributions from Exchange Transactions (958-605-55-8) was superseded

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Scope

- Contributions Received guidance does not apply to:
  - Exchange transactions
  - Transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary
  - Tax exemptions, tax incentives, or tax abatements
  - Transfers of assets from government entities to business entities
  - Transfers of assets that are part of an existing exchange transaction between a recipient and an identified customer
    - AKA 3rd party payer

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Application

- The guidance about distinguishing between contributions and exchange transactions applies to both a resource provider and a recipient

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Language

- Contribution revenue can be presented using different terms (for example, gift, grant, donation, or other terms)
  - The term used in the presentation of FS to label revenue is NOT a factor in determining whether an agreement is within the scope

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Exchange

- If determined to be an exchange transaction follow appropriate guidance
  - i.e. Topic 606

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Contribution

- Contributions received are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received
  - Classification depends on whether the transactions are part of the NFP's ongoing major or central activities (revenues), or are peripheral or incidental to the NFP (gains)

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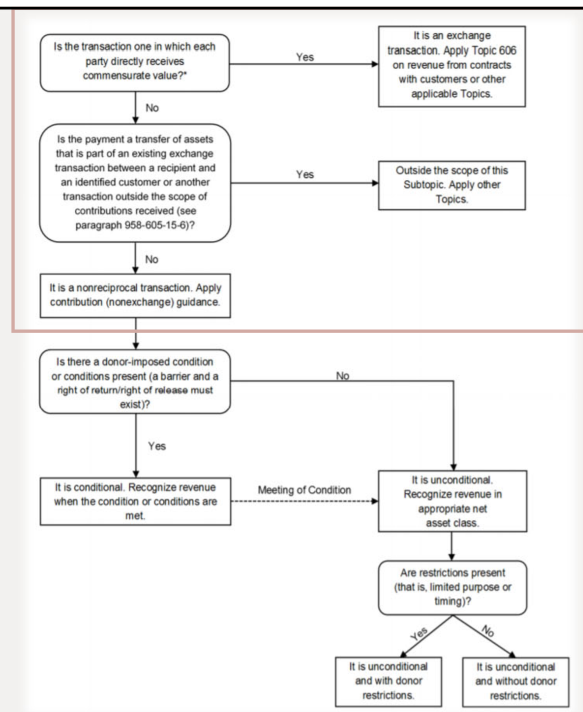
958-605-55-1A Implementation Guidance



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Conditional vs Unconditional

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Condition

- A donor-imposed condition must have both:
  - One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
  - A right of return to the contributor for assets transferred or a right of release of the promisor from its obligation to transfer assets

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Conditions

- Must be determinable from the agreement that a recipient is only entitled to the transferred assets or a future transfer of assets if it has overcome the barrier
  - Does not need to include the specific phrase right of return or release from obligation
  - Should be sufficiently clear to be able to support a reasonable conclusion
- In the absence of any apparent indication the agreement – unconditional

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Barriers

- Evaluate the facts and circumstances of an agreement to determine whether a stipulation represents a barrier that must be overcome.
- A barrier often places specific requirements on an organization about the use of the transferred assets to be entitled to those assets.
- A probability assessment about whether the recipient is likely to meet the stipulation is NOT a factor when determining whether an agreement contains a barrier.

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Indicator #1

- Measurable Performance-Related Barrier or Other Measurable Barrier
  - Examples of measurable performance-related barriers include a requirement that indicates that a recipient's entitlement to transferred assets is contingent upon the achievement of any of the following:
    - A specified level of service
    - An identified number of units of output
    - A specific outcome

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Indicator #1 Cont'd

- Other measurable barriers stipulate that a recipient is entitled to the resources if an identified event occurs
  - i.e. a matching requirement

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Indicator #1 Examples

- Specified Level of Service
  - An entity is given assets, and the resource provider stipulates that the assets must be used to provide a specific level of service
  - The barrier that must be overcome before the recipient is entitled to the resources is the specified level of service that must be achieved

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Indicator #1 Examples Cont'd

- Specific Output or Outcome
  - An entity is given assets, entitlement to which is contingent upon producing a specific output or achieving a measurable outcome stemming from the entity's activities

students achieving a minimum standardized test score	decline in drop-out rates following an entity's educational efforts	community residents exhibiting a decline in symptoms of malnutrition following an entity's efforts in providing meals

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Indicator #1 Examples Cont'd

- Matching
  - A resource provider specifies the ratio or amount of a matching contribution
  - The recipient is not entitled to receive the promised assets until it has met the required match (the barrier or hurdle that must be overcome)

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Indicator #1 Examples Cont'd

- Outside Event
  - Agreements may include requirements that are imposed on, and would need to be overcome by, other parties, including the resource provider
  - A resource provider specifies that a certain outside event needs to occur for the recipient to be entitled to receive the assets
    - A resource provider promises to contribute a certain amount of assets if the resource provider's net worth reaches a specified level

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Indicator #2

- Limited Discretion by the Recipient on the Conduct of an Activity
  - Examples:

requirement to follow specific guidelines about incurring qualifying expenses

requirement to hire specific individuals as part of the workforce conducting the activity

specific protocol that must be adhered to

Indicator #2 Cont'd

- Limited discretion of the recipient is more specific than a donor-imposed restriction
  - Restrictions limit the use of a contribution to a specific activity or time but do not necessarily place limitations on how the activity is performed.

Indicator #2 Cont'd

- An agreement might specify that the recipient should incur qualifying expenses in compliance with established rules and regulations.
  - This is in contrast to a restriction, which typically places limits only on a specific activity that is being funded and does not affect the extent to which a recipient is entitled to the resources
    - i.e. a requirement that a contribution be used to fund one of an organization's programs

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Indicator #2 Cont'd

- A requirement that assets must be used for allowable and reasonable qualifying expenses (or costs) that are based on specific requirements of an agreement about the conduct of an activity
  - Compliance with principles issued by the OMB
- Often are paid on a cost reimbursement basis that requires a recipient to incur specific qualifying expenses to be entitled to the promised resources

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Indicator #3

- Stipulations That Are Related to the Purpose of the Agreement
  - A stipulation that is unrelated to the purpose of the agreement is not indicative of a barrier
    - i.e. administrative and trivial stipulations

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Indicator #3 Cont'd

- Examples could include a requirement for:

a homeless shelter to provide a specified number of meals to the homeless	an animal shelter to expand its facility to accommodate a specified number of additional animals	a research report that summarizes the findings from a grant on gluten-related allergies

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Indicator #3 Cont'd

- Administrative and trivial stipulations could include routine reporting such as a requirement to provide
  - An annual report, or
  - A report that summarizes the recipient's performance to demonstrate the underlying actions that were taken to meet the barrier(s) specified in the agreement

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Ambiguity

- In cases of ambiguous donor stipulations, a contribution containing stipulations that are not clearly unconditional are be presumed to be a conditional contribution

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No Barriers

- It is possible that some agreements that do not contain any barriers could contain either a right of return of assets transferred or a right of release from obligation.
  - Resources would be considered unconditional, and revenue would be recognized immediately.

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Recognition & Measurement

- A transfer of assets that is a conditional contribution is accounted for as a refundable advance until the conditions have been substantially met or explicitly waived by the donor

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Recognition & Measurement Cont'd

- Conditional promises to give which contain donor-imposed conditions are recognized when the condition or conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional

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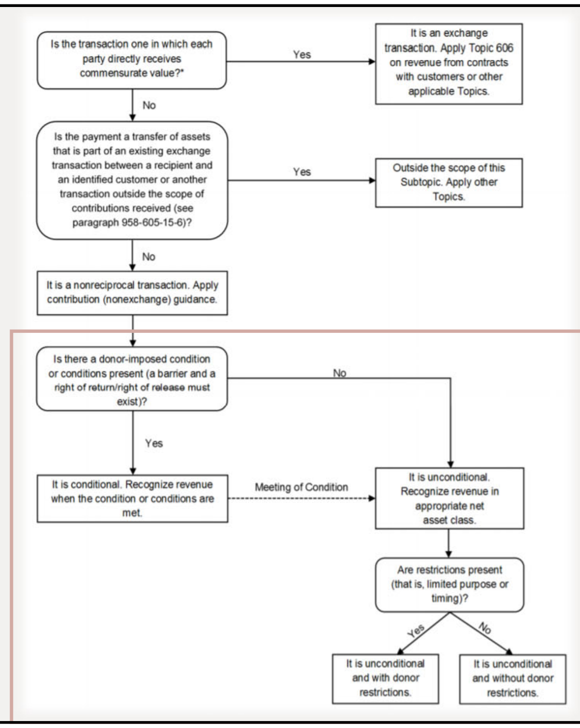
958-605-55-1A Implementation Guidance



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Simultaneous Release

- An NFP may elect a simultaneous release policy for donor-restricted contributions that were initially conditional contributions (the condition has been met) without also having to elect it for other donor restricted contributions or investment gains and income provided that the NFP reports consistently from period to period and discloses its accounting policy.

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Effective Date - Resource Recipient

- Public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market - annual periods beginning after June 15, 2018, including interim periods within those annual periods.
- All other entities - annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

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Effective Date - Resource Provider

- Public business entity or an NFP that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market - annual periods beginning after December 15, 2018, including interim periods within those annual periods.
- All other entities - annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020.

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Transition

- Modified prospective basis
  - Retrospective application is permitted
- In the first set of financial statements following the effective date the amendments should be applied to agreements that are either:
  - Not completed as of the effective date
  - Entered into after the effective date

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Transition Cont'd

- A completed agreement is an agreement for which all the revenue (of a recipient) or expense (of a resource provider) has been recognized before the effective date in accordance with current guidance (for example, Topic 605, Topic 958, or other Topics).
  - Apply only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance

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Transition Cont'd

- No prior-period results should be restated, and there should be no cumulative-effect adjustment to the opening balance of net assets or retained earnings at the beginning of the year of adoption

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Transition Cont'd

Disclose both:

- The nature of & reason for the accounting change
- An explanation of the reasons for significant changes in each financial statement line item in the current annual or interim period resulting from applying the amendments instead of the previous guidance

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TQA

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Background

FASB Staff Q&A on Implementing the New Not-for-Profit Grants and Contracts Standard (ASU 2018-08)

- Issued June 2019

- Background:
  - ASU 2018-08 provided new contribution guidance for nonprofit entities
    - Three barriers that indicate a barrier

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Budgets Question

- How should the limited discretion indicator be applied when determining whether a budget and related stipulations within a grant agreement are deemed to be a barrier to entitlement?

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Budgets Answer

- The existence of a budget and a requirement for adherence to it within deviation limits would not indicate by themselves that a barrier to entitlement exists.
  - For example, the requirement to gain preapproval for a significant deviation in spending (for example, a line-item deviation of more than 10%) would not be a factor for considering whether a barrier exists (which depends on when entitlement occurs).

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Budgets Answer Cont'd

- A funder's requirement that a budget be followed within a deviation limit normally would be viewed by the funder as a guardrail (or guidepost) for the NFP to do, within reason, what it said it would do and not as indication of a barrier to entitlement.
- Thus, stipulations other than adherence to a budget (i.e. the need to incur qualifying expenses) would normally need to be present for a barrier to entitlement to exist.

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Budgets Judgment

- ASU 2018-08 states that “depending on the facts and circumstances, some indicators may be more significant than others, and no single indicator shall be determinative.”
- The unique facts and circumstances of each grant agreement must be analyzed within the context of the indicators to conclude whether a barrier to entitlement exists.

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Cost Sharing Questions

- How should an entity determine whether a cost-sharing provision in an agreement is a barrier to entitlement?
- Should cost-sharing provisions in an agreement be analogized to matching provisions when determining how to account for the timing and pattern of revenue recognition?

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Cost Sharing Answers

- A cost-sharing provision should be considered a barrier if it is clear that entitlement to grant funds is contingent on the recipient meeting a cost-sharing requirement.
- The consideration about whether a recipient is likely to meet the cost-sharing requirement should not be a factor in determining whether a barrier to entitlement exists.

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Cost Sharing Judgment

- Specific requirements in a grant agreement should be analyzed to determine:
  - Whether the grant requires raising incremental funds from an outside source (a matching provision) or simply spending resources other than the grant resources provided (a cost-sharing provision)
  - Whether entitlement depends on meeting that requirement
  - The appropriate timing and pattern of revenue recognition resulting from that requirement
- A careful review of the wording used in the agreement is important in making this determination.

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Scenario #1

- The organization must provide, from its own resources (other than the funds received from the grant), an amount equal to a certain percentage of the grant award in each year of a multiyear grant in order to be entitled to the grant funds for that year.
- The grant agreement states that if the cost share is not met in a particular year, the grantor has the right to have the recipient return the grant funds (or a portion of the grant funds).

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Scenario #1 Answer

- Somewhat similar to a matching provision, there would be a barrier to a recipient's entitlement to a resource provider's funding each year if there is an annual cost-sharing requirement.
- Grant fund revenue should be deferred until the cost-sharing provision is met each year if entitlement to annual grant funds is contingent on meeting the annual cost share.
- An entity should review the grant agreement carefully to determine the amount of grant funding that would be at risk, which is the amount subject to the right of return or right of release from the resource provider's obligation in the event of any unmet cost share.

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Scenario #2

- The organization must provide, from its own resources (other than the funds received from the grant), an amount equal to a certain percentage of the total grant award by the end of the last year of a multiyear grant in order to be entitled to the grant funds.
  - The grant agreement does not contain a specific requirement that must be met each year to be entitled to funds for that year.
  - If the cost share has not been met by the end of the agreement, the grantor has the right to have the recipient return the grant funds (or a portion of the grant funds).

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Scenario #2 Answer

- A year-to-year deferral of revenue would not be necessary for grant agreements with cost-sharing provisions such as the one in Scenario 2.
- In this scenario, a barrier would exist, the timing of having to meet that barrier and the timing of the specific grant funds at risk of return or right of release would be different.
  - It would be appropriate to defer grant revenue in a particular year only if the remaining portion of the award that is for future years does not exceed the amount at risk of being returned or released.
  - An entity should review the agreement carefully to determine the amount of funding that would be at risk after accounting for any portion of the cost-sharing requirement that the recipient has already met.

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Example

- A grantor awards a 5-year grant at $100,000 per year, with a requirement that the grantee provide $200,000 of cost share before the end of the grant term. The agreement indicates that failure to meet the cost-sharing requirement may result in grant funds being returned to the funder in an amount equal to that by which the actual cost share is less than the required cost share.
  - At maximum, only the last two years of grant revenue would be at risk if the cost-sharing provision is not met.

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Example Answer

- If, by the end of the 4th year, at least $100,000 of cost share has already been met by the recipient, recognition of that year's grant funding would likewise be appropriate as long as any other barriers have been met.
- If only $60,000 of cost share has been met by the recipient, recognition of $60,000 of the fourth year's funding would be appropriate, but the other $40,000 would remain at risk.

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Nonprofit ASUs

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ASU 2019-03

Updating the Definition of Collections

- Issued March 2019

- Background:
  - Definition of the term collections in the Master Glossary is not fully aligned with the definition used in the American Alliance of Museums' (AAM) Code of Ethics for Museums (the Code)

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ASU 2019-03 Cont'd

- Current Definition:
  - Works of art, historical treasures, or similar assets that meet all of the following criteria:
    - They are held for public exhibition, education, or research in furtherance of public service rather than financial gain.
    - They are protected, kept unencumbered, cared for, and preserved.
    - They are subject to an organizational policy that requires the proceeds of items that are sold to be used to acquire other items for collections.

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ASU 2019-03 Cont'd

- GAAP does not require recognition of contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet the three conditions.

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ASU 2019-03 Cont'd

- Impacts all entities, including business entities, that maintain collections

Museums	Botanical Gardens	Libraries	Aquariums
Arboretums	Historic Sites	Planetariums	Zoos
	Art Galleries	Science & Technology Centers	

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ASU 2019-03 Cont'd

- Update:
  - Modifies the definition of the term collections to allow the proceeds to be used to support the direct care of existing collections in addition to the current requirement that proceeds from sales of collection items be used to acquire other items for collections

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ASU 2019-03 Cont'd

- They are subject to an organizational policy that requires the proceeds of items that are sold to be *limited to direct care of existing collections or the acquisition of* ~~used to acquire~~ other items for collections

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ASU 2019-03 Cont'd

- Requires the disclosure of the policy for the use of proceeds from when collection items are deaccessioned

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ASU 2019-03 Cont'd

- If a collection-holding entity has a policy that allows proceeds from deaccessioned collection items to be used for direct care, it should disclose its definition of direct care.

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ASU 2019-03 Cont'd

- Effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020
  - Early application is permitted
  - Applied on a prospective basis

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ASU 2019-06

Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities

- Issued May 2019

- Background:
  - In 2014, ASU 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, and ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (consensuses of the Private Company Council [PCC] were issued

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ASU 2019-06 Cont'd

- Feedback from NFP stakeholders that questioned the relevance of an impairment-only approach to goodwill
- Input that the benefits of the current accounting for goodwill and identifiable intangible assets acquired in an acquisition by an NFP do not justify the related costs

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ASU 2019-06 Cont'd

- Goodwill Impairment
  - Phase 1 Simplification
    - ASU 2017-04 (removes Step 2) for everyone
  - Phase 2 Amortization
    - ASU 2019-06 for NFPs
      - PBEs not included

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ASU 2019-06 Cont'd

- Applies to all not-for-profit entities (per Master Glossary), including those that are conduit bond obligors

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ASU 2019-06 Cont'd

- Update:
  - NFPs can amortize goodwill on a straight-line basis over 10 yrs or less
    - Required to make an accounting policy election to test goodwill for impairment at either the entity level or reporting unit level
    - Required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount
  - NFP can subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired
    - Must amortize goodwill

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ASU 2019-06 Cont'd

- Effective upon issuance.
- NFPs electing to adopt these alternatives do not have to demonstrate preferability and should follow the transition guidance the first time they elect to adopt the alternatives.
  - Same open-ended effective date and unconditional one-time election that private companies have.

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Next Steps

- Another project on FASB's agenda to examine the subsequent accounting for goodwill and the accounting for identifiable intangible assets.
  - For all entities
- It is possible that entities electing these alternatives could be subject to future changes to the subsequent accounting for goodwill as a result of that project.

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NFP Proposal

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Background

Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

- Issued February 2020

- Goal:
  - Increasing the transparency of contributed nonfinancial assets for not-for-profit

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Background Cont'd

- Issue:
  - Lack of transparency about the valuation of contributed nonfinancial assets received by NFPs

- Response:
  - Address presentation and disclosure of contributed nonfinancial assets

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Proposal

- Present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets

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Proposed Disclosures

- Contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets
- For each category of contributed nonfinancial assets received:
  - Qualitative information about whether the contributed nonfinancial assets were or are intended to be either monetized or utilized during the reporting period and future periods. If utilized, an NFP would disclose a description of the programs or other activities in which those assets were or are intended to be used.
  - A description of any donor restrictions associated with the contributed nonfinancial assets.
  - The valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant, in accordance with the requirements in Topic 820, Fair Value Measurement.

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Comments Due

- Comments due April 10, 2020

2018 Yellow Book

Overview

Government Auditing Standards 2018 Revision

- GAO-18-568G
- Issued July 2018

- Supersedes:
  - the 2011 GAS revision
  - the 2005 Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education
  - the 2014 Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings

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Format

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Format

- All chapters are presented in a revised format that differentiates requirements and application guidance related to those requirements

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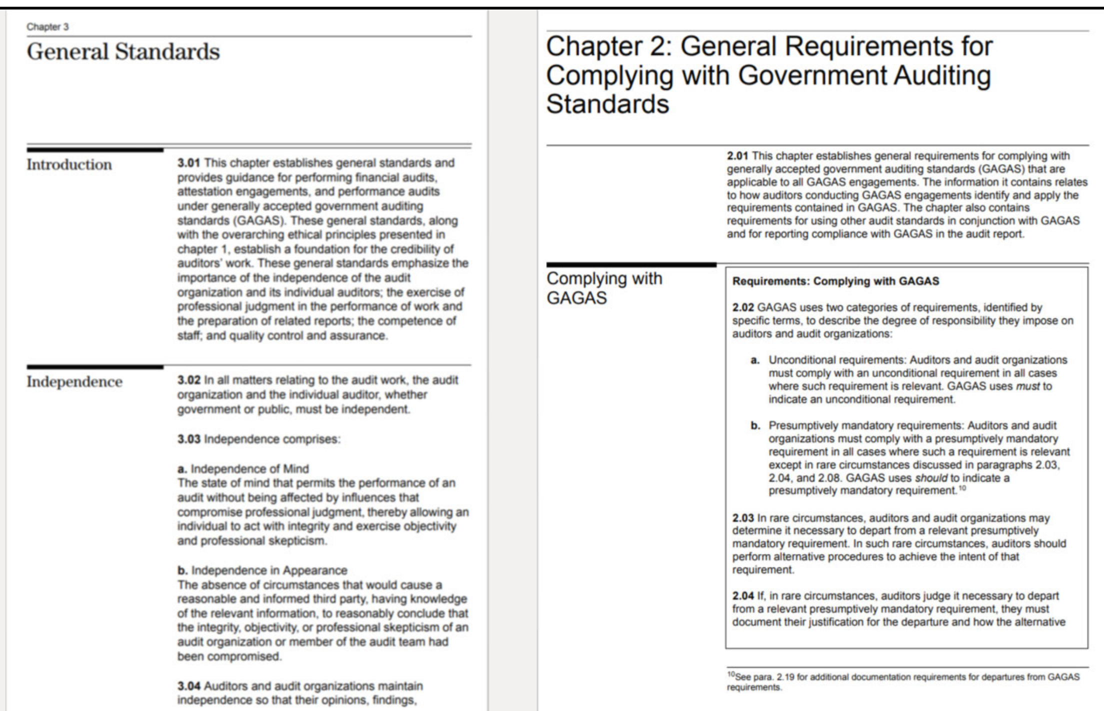
Chapter 3

General Standards

Introduction

3.01 This chapter establishes general standards and provides guidance for performing financial audits, attestation engagements, and performance audits under generally accepted government auditing standards (GAGAS). These general standards, along with the overarching ethical principles presented in chapter 1, establish a foundation for the credibility of auditors' work. These general standards emphasize the importance of the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of staff; and quality control and assurance.

Independence

3.02 In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

3.03 Independence comprises:

a. Independence of Mind
The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

b. Independence in Appearance
The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

3.04 Auditors and audit organizations maintain independence so that their opinions, findings,

Chapter 2: General Requirements for Complying with Government Auditing Standards

2.01 This chapter establishes general requirements for complying with generally accepted government auditing standards (GAGAS) that are applicable to all GAGAS engagements. The information it contains relates to how auditors conducting GAGAS engagements identify and apply the requirements contained in GAGAS. The chapter also contains requirements for using other audit standards in conjunction with GAGAS and for reporting compliance with GAGAS in the audit report.

Complying with GAGAS

Requirements: Complying with GAGAS

2.02 GAGAS uses two categories of requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations:

a. Unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses *must* to indicate an unconditional requirement.

b. Presumptively mandatory requirements: Auditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant except in rare circumstances discussed in paragraphs 2.03, 2.04, and 2.08. GAGAS uses *should* to indicate a presumptively mandatory requirement.[10]

2.03 In rare circumstances, auditors and audit organizations may determine it necessary to depart from a relevant presumptively mandatory requirement. In such rare circumstances, auditors should perform alternative procedures to achieve the intent of that requirement.

2.04 If, in rare circumstances, auditors judge it necessary to depart from a relevant presumptively mandatory requirement, they must document their justification for the departure and how the alternative

[10]See para. 2.19 for additional documentation requirements for departures from GAGAS requirements.

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Chapters

- Number of chapters increased from 7 to 9

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Appendices

- Supplemental guidance from the appendix of the 2011 revision is either removed or incorporated into the individual chapters

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Independence

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Paragraph 3.88

- Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence
  - Should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to provide the services.

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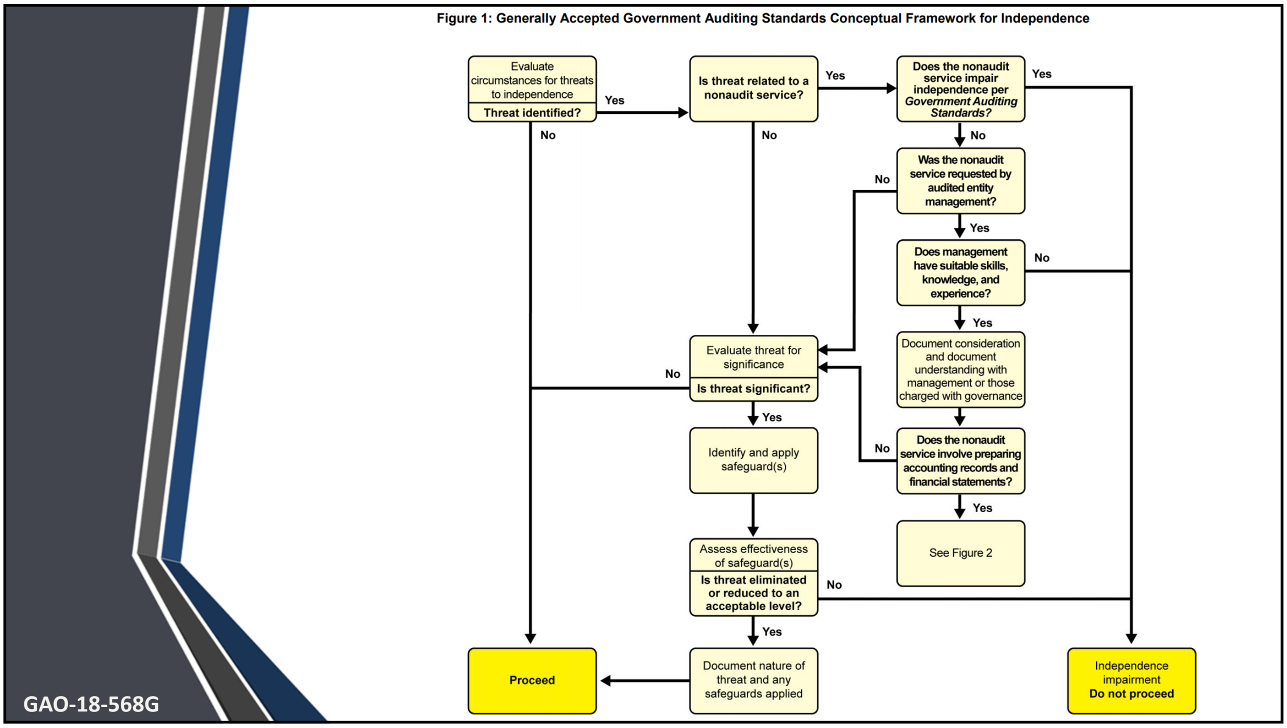

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Paragraph 3.89: Threat Identification

- Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence

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Paragraph 3.90: Documentation

- Auditors should evaluate the significance of threats to independence created by providing any services and should document the evaluation of the significance of such threats.

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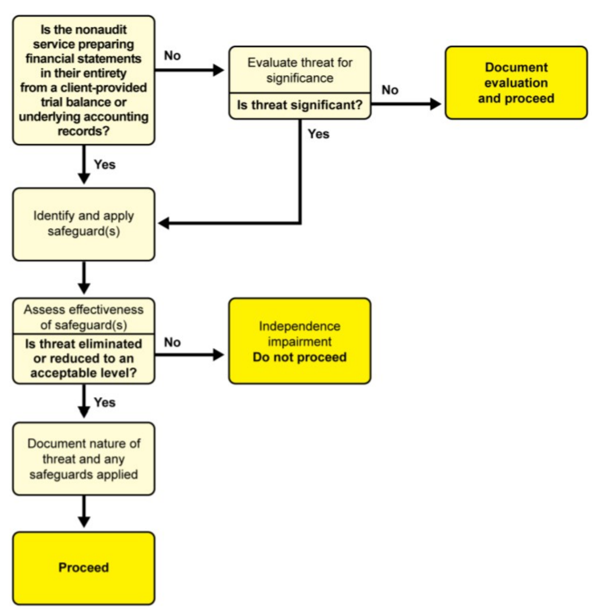
Independence considerations for preparing accounting records and financial statements



Source: GAO. | GAO-18-568G

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Paragraph 3.69: New Safeguards for Nonaudit Services

- The following are examples of actions that in certain circumstances could be safeguards in addressing threats to independence related to nonaudit services:
  - not including individuals who provided the nonaudit service as engagement team members;
  - having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate;
  - engaging another audit organization to evaluate the results of the nonaudit service; or
  - having another audit organization re-perform the nonaudit service to the extent necessary to enable that other audit organization to take responsibility for the service.

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Paragraph 3.79: Clarification

- However, indicators of management's ability to effectively oversee the nonaudit service include management's ability to determine the reasonableness of the results of the nonaudit services provided and to recognize a material error, omission, or misstatement in the results of the nonaudit services provided.

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Removed As Explicitly Acceptable

- Proposing standard, adjusting, or correcting journal entries or other changes affecting the financial statements to an audited entity's management provided management reviews and accepts the entries and the auditor is satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.

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Paragraph 3.95: Clarification

- Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.

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Quality Control & Peer Review

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Paragraph 5.16: CPE

- The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted.

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Paragraph 5.68: Peer Review Risk

- Peer review risk is the risk that the review team:
  - Fails to identify significant weaknesses in the reviewed audit organization's system of quality control for its auditing practice, its lack of compliance with that system, or a combination thereof;
  - Issues an inappropriate opinion on the reviewed audit organization's system of quality control for its auditing practice, its compliance with that system, or a combination thereof; or
  - Makes an inappropriate decision about the matters to be included in, or excluded from, the peer review report.

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Paragraph 5.70: Role of Peer Review

- A peer review is designed to test significant risk areas where it is possible that engagements are not being conducted, reported on, or both in conformity with professional standards and applicable legal and regulatory requirements in all material respects.
- A peer review is not designed to test every engagement, compliance with every professional standard, or every detailed component of the audit organization's system of quality control.

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Paragraph 5.72: Peer Review Ratings

- Incorporates the 2014 Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings
  - Superseded

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Waste & Abuse

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Paragraph 6.21: Definition of Waste

- Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose.
  - Can include activities that do not include abuse and does not necessarily involve a violation of law.
- Relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

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Paragraph 6.22: Examples of Waste

Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive.

Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive

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Reporting

- Removes reporting requirements for waste and abuse

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Reviews of Financial Statements

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Paragraph 7.86: Review of Financial Statements

- Establishes requirements for reviews of financial statements in addition to the requirements for reviews of financial statements contained in the AICPA's AR-C 90, Review of Financial Statements.
- Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their review engagement reports.

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Additional Requirements

- 7.89: Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements
- 7.90: Reporting Auditors' Compliance with GAGAS
- 7.93: Distributing Reports

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CPE

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Paragraph 4.16: CPE Changes

- Same CPE hour requirement
  - Refers to 24 and 56 hours instead of 24 and 80
- Guidance on GAGAS Requirements for Continuing Professional Education was incorporated
  - Streamlined topics

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Paragraph 4.19: Expanded Application Guidance CPE

- Obtaining CPE specifically on GAGAS, particularly during years in which there are revisions to the standards, may assist auditors in maintaining the competence necessary to conduct GAGAS engagements.

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Paragraph 4.20: Expanded Application Guidance CPE

- CPE used to fulfill the 24-hour requirement may be taken at any time during the 2-year measurement period.

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Paragraph 4.23: Expressly Under 24 Hr Requirement

- Standards for Internal Control in the Federal Government
- Internal Control—Integrated Framework

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Paragraph 4.23 Cont'd: Expressly Under 24 Hr Rqmt

- Requirements for federal, state, or local program audits;
- Relevant or applicable audit standards or guides, including those for information technology auditing and forensic auditing;
- Statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the specific and unique environment in which the audited entity operates;
- Statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the subject matter of the engagement, such as scientific, medical, environmental, educational, or any other specialized subject matter;

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Paragraph 4.23 Cont'd: Expressly Under 24 Hr Rqmt

- Topics directly related to the government environment
  - Nature of government (structures, financing, and operations)
  - Economic or other conditions and pressures facing governments
  - Common government financial management issues, appropriations, measurement or evaluation of government financial or program performance
  - Application of general audit methodologies or techniques to a government environment or program

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Paragraph 4.23 Cont'd: Expressly Under 24 Hr Rqmt

- Specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial estimates, statistical analysis tests, or statistical or nonstatistical sampling;
- Performance auditing topics, such as obtaining evidence, professional skepticism, and other applicable audit skills;

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Paragraph 4.24: 80 Hour Topics

- Communicating clearly and effectively, both orally and in writing
- Managing time and resources

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Paragraph 4.26: New Exemption

- Nonsupervisory auditors who charge less than 40 hours of their time annually to engagements conducted in accordance with GAGAS may be exempted by the organization from all CPE requirements

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Paragraph 4.44: New Deficiency Guidance

- Audit organizations may also give auditors who have not completed the 20 hours of CPE in a 1-year period up to 2 months immediately following the 1-year period to make up the deficiency.

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COVID19 CPE Changes

- For 2-year CPE periods that end February 29, 2020, through December 31, 2020, auditors who have not completed the 80-hour or the 24-hour CPE requirements for the 2-year period may have up to 6 months immediately following the 2-year period to make up the deficiency.
  - Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be counted toward the requirements for the next period.
- Auditors who have not satisfied the CPE requirements after the grace period may not participate in GAGAS engagements until those requirements are satisfied.

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COVID19 CPE Changes

- Auditors are not required to complete at least 20 hours of CPE for a 1-year CPE period that ends February 29, 2020, through December 31, 2020.

COVID19 CPE Changes

- From the audit organization's 2-year period in effect on February 29, 2020, auditors may carry over up to 40 hours of CPE, in excess of the 80-hour requirement, to the next CPE measurement period.
  - For 2-year CPE measurement periods ending after December 31, 2020, only CPE hours earned through December 31, 2020 may be carried over.
  - Auditors may not carry over excess CPE earned in prior 2-year CPE periods.

COVID19 CPE Changes

- Clarification on exemptions for hardship
  - If the auditor is working, including teleworking, audit organizations and auditors may not use this exemption.
  - An exemption may be used if an auditor or the auditor's dependents become ill, and the auditor is not able to work on GAGAS engagements.
    - Prorate as appropriate

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Miscellaneous

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Paragraph 1.17

- Recognizes an integrated audit as a financial audit
  - SSAE 18

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Paragraph 2.14

- For financial audits, attestation engagements, and reviews of financial statements, GAGAS does not incorporate the AICPA Code of Professional Conduct by reference, but recognizes that certain CPAs may use or may be required to use the code in conjunction with GAGAS.

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Effective Date

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Effective Date

- Effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019.
- Early implementation is NOT permitted

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What Questions Do You Have?

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