Memorandum

Date: July 2006
To: Financial Management and Assurance Team
From: Gail Flister Vallieres
Subject: Professional Standards Update No. 45

In order to alert you to changes in professional standards, we issue Professional Standards Updates. Prior updates and an index are available on the FMA web page at http://gaoweb.gao.gov/fma/professional_standards_update.html

Thanks to Frank Synowiec, Janet Krell, Heather Keister, Abe Akresh and Michael Hrapsky for their contributions to this issue, and Paula Parker for maintaining prior issues and the index on the FMA web page. This issue contains summaries of:

<u>Auditing Standards</u>

GAO
- *Government Auditng Standards,* 2006 Revision Exposure Draft

AICPA Auditing Standards Board (ASB)
- Statement on Auditing Standard (SAS) No. 102, *Defining Professional Requirements in Statements on Auditing Standards,* and Statement on Standards for Attestation Engagements (SSAE) No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*
- SAS No. 103, *Audit Documentation*
- SAS No. 104 – 111, *Audit Risk Standards*
- SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*
- Interpretations of Statements on Auditing Standards
  - *Auditing Derivative Investments, Hedging Activities, and Investments in Securities* (AU Section 9332)
  - *Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value* (AU Section 9328).
- Technical Practice Aids
  - *Subsequent Events* (TIS Section 9070)
  - *Evidential Matter* (TIS Section 8345)

Public Company Accounting Oversight Board (PCAOB)
- *Staff Question and Answer Document* related to *Adjustments to Prior-Period Financial Statements Audited By a Predecessor Auditor.*

Auditing Standards (cont)

Institute of Internal Auditors (IIA)
- International Standard for the Professional Practice of Internal Auditing No.1312, *External Assessments*
- *GAP News*

Relevance and Relationship of GAGAS and Other Professional Auditing Standards

Accounting Standards

FASB
- Statement of Financial Accounting Standards (FAS) No. 155, *Accounting for Certain Hybrid Financial Instruments*
- FAS No. 156, *Accounting for Servicing of Financial Assets*

GASB
- White paper - *Why Governmental Accounting and Financial Reporting is—and Should Be—Different*

Regulatory

Office of Management and Budget
- *Frequently Asked Questions* on OMB Circular A-123, *Management's Responsibility for Internal Control*: Appendix A (April 13, 2006)
- Revised Appendix B, *Improving the Management of Government Charge Card Program* (April 28, 2006)
- Compliance Supplement to OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, (March 2006)

AUDITING STANDARDS

Government Auditing Standards

GAO issued an exposure draft of proposed changes to ***Government Auditing Standards* (GAGAS),** commonly known as the "**Yellow Book**." The 2006 Yellow Book exposure draft emphasizes the critical role of high quality government audits in achieving credibility and accountability in government. The proposed standards include an increased emphasis on audit quality and ethics. The performance audit standards have been extensively updated to include a specified level of assurance within the context of risk and materiality. In addition, this proposed revision modernizes GAGAS to reflect major developments in the accountability and audit environment.

Other major changes in the Exposure Draft include:

- Incorporating newly issued SAS 102, *Defining Professional Requirements in Statements on Auditing Standards*, and SAS No. 103, *Audit Documentation*, into GAGAS. A summary of these two new standards is on pages 4 - 5 of this Update.
- Devoting chapter 2 solely to emphasizing the ethical responsibilities of government auditors.
- Reorganizing the discussion of nonaudit services and their potential impact on auditor independence in chapter 3; however, the standard on nonaudit services has not changed.
- Adoption of a new, more rigorous definition for material weaknesses in internal control, and replacing the term *reportable condition* with *significant deficiency*, which also has a more rigorous definition.
- Establishing a new standard for auditors reporting on previously audited financial statements that have been restated to correct a material misstatement.
- Providing guidance for emphasizing matters in the auditors' report, for example, concerns or significant uncertainties about the fiscal sustainability of a government or program under audit, catastrophic events that will likely have a significant ongoing or future impact on the government's financial condition or operations, or other significant uncertainties.

GAO is requesting comments on this draft from audit officials and interested parties from all levels of government, the public accounting profession, academia, professional organizations, and public interest groups. When issued in final, the 2006 revision will supersede the 2003 revision of the standards. We anticipate that, when finalized, the standards will become effective for performance audits beginning on or after July 1, 2007. For financial audits and attestation engagements, the standards are proposed to become effective for audits of periods ending on or after July 1, 2007. In addition, when SASs 102 - 112 (see below) issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants have earlier effective dates for financial audits performed under GAGAS, the effective dates of the new ASB standards will apply.

The draft of the proposed changes to *Government Auditing Standards, 2006 Revision*, is available in electronic format at http://www.gao.gov/govaud/ybk01.htm

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AICPA Auditing Standards Board (ASB)

SAS No. 102, *Defining Professional Requirements in Statements on Auditing Standards,* and SSAE No. 13, *Defining Professional Requirements in Statements on Standards for Attestation Engagements,* define the degree of responsibility imposed on the auditor when certain imperatives (such as *must*, *is required*, and *should*) are used in audit and attest standards. Janet Krell, FMA, represented GAO on the ASB task force that developed this new standard.

The new Statements define the following two categories of professional requirements:

- Unconditional requirements that the auditor must comply with whenever the circumstance exists to which the unconditional requirement applies. An unconditional requirement is indicated by the words *must* or *is required*.
- Presumptively mandatory requirements that the auditor is required to comply with whenever the circumstances exist to which the presumptively mandatory requirement apples. However, in rare circumstances, the auditor may depart from a presumptively mandatory requirement if he or she documents the justification for the departure and how alternative procedures performed were sufficient to achieve the objectives of the presumptively mandatory requirement. The word *should* indicates a presumptively mandatory requirement.

The words *may, might,* and *could* are used to describe other procedures or actions relating to the activities of the auditor and are not intended to impose a professional requirement for the auditor to perform the suggested procedures or actions.

SAS No. 102 and SSAE No. 13 are effective upon issuance and apply to existing SASs and SSAEs; they do not apply to interpretive guidance issued by the ASB.

These standards mark significant progress in harmonizing auditing standards among US auditing standard setting organizations. The ASB used the same definitions as used by the Public Company Accounting Oversight Board (PCAOB) in its Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards.* The proposed revisions to the Yellow Book, 2006 revision, also incorporate the same terminology. The FAM team is also considering how these terms will impact the revised FAM.

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SAS No. 103, Audit Documentation establishes standards and provides guidance on audit documentation; SAS 103 supersedes SAS No. 96. Marcia Buchanan, FMA, and Gail Flister Vallieres, FMA, represented GAO on the ASB task force that developed this standard.

Audit documentation is an essential element of audit quality. Although audit documentation alone does not guarantee audit quality, the process of preparing sufficient and appropriate audit documentation contributes to the quality of an audit.

SAS 103 contains major changes that will affect most audits, including:

- Requiring the auditor to prepare audit documentation for each engagement in sufficient detail to provide an experienced auditor, having no previous connection to the audit, with a clear understanding of the work performed (including the nature, timing, extent and results of audit procedures performed), the audit evidence obtained and its source, and the conclusions reached.

- Stating that the auditor should document discussions of significant findings or issues with management and others, on a timely basis, including when and with whom the discussions took place.

- Stating that oral explanations on their own do not represent sufficient support for the work the auditor performed or conclusions the auditor reached, but may be used by the auditor to clarify or explain information contained in the audit documentation

- Stating that the auditor should document audit evidence that is identified as being contradictory or inconsistent with the final conclusions, and how the auditor addressed the contradiction or inconsistency.

- Stating that the auditor should assemble the audit documentation to form the final audit engagement file within 60 days following the report release date. After that date, the SAS requires the auditor not to delete or discard existing audit documentation and to appropriately document any subsequent additions.
- Amending paragraphs 1 and 5 of AU Section 530, *Dating of the Independent Auditor's Report*, by stating that the auditor's report should not be dated earlier than the date on which the auditor obtained sufficient appropriate audit evidence to support the opinion on the financial statements.

Because SAS 103 is based on GAGAS, the effect on GAO's financial audits should not be significant, except for the provisions on assembling the engagement file and dating the auditor's report

The SAS is effective for audits of financial statements for periods ending on or after December 15, 2006. Early application is permitted.

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SAS Nos. 104 - 111 comprise a suite of the following interrelated Audit Risk Standards:

- *SAS 104, Amendment to SAS 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")*
- *SAS 105, Amendment to SAS 95, Generally Accepted Auditing Standards*
- *SAS 106, Audit Evidence*
- *SAS 107, Audit Risk and Materiality in Conducting an Audit*
- *SAS 108, Planning and Supervision*
- *SAS 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- *SAS 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- *SAS 111, Amendment to SAS. 39, Audit Sampling*

Abe Akresh, FMA, represented GAO on the ASB task force that developed these new standards.

The Audit Risk Standards provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these Statements is to enhance auditors' application of the audit risk model in practice by calling for, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

The new Audit Risk Standards are expected to achieve the following key changes in audit practice:

- The quality and depth of the required understanding of the entity and its environment, including its internal control, are significantly enhanced. The auditor should perform risk assessment procedures in all audits to obtain a sufficient understanding of the entity and its environment, including its internal control. A sufficient understanding is fundamental to an effective audit because it assists and enhances the auditor's identification and assessment of where material misstatement may occur. In addition, the understanding assists the auditor throughout the audit, for example, in making judgments about materiality and in evaluating audit evidence.

- Guidance on the assessment of the risk of material misstatement is significantly enhanced and expanded. Assessing the risks of material misstatement encompasses a combined assessment of inherent and control risk (although separate assessments of inherent and control risks are permitted). The concept of assessing risk "at the maximum" without support is eliminated. Auditors should support risk assessments, at whatever level, based on their understanding of the entity and its environment, including its internal control. In addition, as part of the assessment, auditors will identify significant risks that require special audit consideration and risks for which substantive procedures alone will not reduce audit risk to an appropriate low level.

- Testing of controls is encouraged by eliminating the default to maximum risk and the ability to avoid documenting the basis for that conclusion. In addition, the auditor's understanding of internal control is augmented by specifying that the auditor should evaluate the design of controls, including relevant control procedures over significant risks, and should determine whether the controls have been implemented. Increasing the specificity of guidance about the understanding of internal control in such circumstances is expected to encourage the testing of controls. Consistent with existing guidance, the auditor is not required to perform tests of controls unless (1) the auditor intends to rely on the operating effectiveness of controls to alter the nature, timing, or extent of substantive procedures, or (2) the auditor has determined that evidence obtained from substantive procedures alone will not reduce detection risk to an appropriately low level and audit evidence about the effectiveness of controls must be obtained.

- The linkage between assessed risks and audit procedures responsive to those risks is improved. Auditors should determine overall responses to address the risks of material misstatement at the financial statement level, and should design and perform further audit procedures whose nature, timing, and extent are clearly linked to the assessed risks of material misstatement at the relevant assertion level. The guidance emphasizes the importance of the nature of the further audit procedures performed in responding to assessed risks.

The group of risk assessment standards will be effective for audits of financial statements for periods beginning on or after December 15, 2006. Early adoption is permitted.

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SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, which replaces SAS No. 60, establishes standards and provides guidance on the auditor's responsibilities for identifying, evaluating, and communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. SAS No. 112 is effective for audits of financial statements for periods ending on or after December 15, 2006, and early implementation is permitted. Marcia Buchanan, FMA, represented GAO on the ASB task force that developed this new standard.

SAS 112 requires the auditor to communicate control deficiencies that are significant deficiencies or material weaknesses in internal control. SAS No. 112 defines these terms using definitions that are consistent with those in Public Company Accounting Oversight Board (PCAOB) Auditing Standard

No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. (The term reportable condition is no longer used.) This new terminology and definitions for reporting internal control deficiencies is also consistent with the terminology and definitions in the proposed 2006 revisions to the Yellow Book.

In implementing SAS 112 the auditor must evaluate control deficiencies identified during the audit. In doing so, the auditor should consider:

- The likelihood that a control would not have prevented or detected a misstatement in the financial statements, and
- The magnitude of the misstatement that could have occurred. It does not matter whether a misstatement actually occurred; what is relevant is the potential for misstatement.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. (The term remote likelihood as used here has the same meaning as the term remote as used in Financial Accounting Standards Board Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.) Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected
The difference between a significant deficiency and a material weakness is the magnitude of the misstatement that could occur because of the failure of a control to prevent or detect a misstatement.

The auditor must communicate significant deficiencies and material weaknesses identified in the audit to management and those charged with governance. This includes the significant deficiencies and material weaknesses that were communicated to management and those charged with governance in previous audits if they have not yet been remediated. The SAS recognizes that the body charged with governance may take different forms in different entities. It might exist as a board of directors, a committee of the board of directors (for example, an audit or legislative oversight committee), a committee of management (for example, a finance, budget, or governmental agency executive committee), partners, equivalent persons, or some combination of these parties.

The communication must be in writing and is best made by the report release date (the date on which the auditor grants permission for the client to use the auditor's report in connection with the financial statements), but should be made no later than 60 days following the report release date.

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SAS 102 and 103 are available on GAO's on-line Audit Reference Library (click Start, then click Applications, then click Audit Reference Library), and SASs 104-112 will be available there soon. SAS 104-111 also are in the May 2006 Journal of Accountancy. In addition, the PowerPoint slides from the May 9, 2006 AAU seminar on SAS 102-112 are posted on the FMA homepage at http://gaoweb.gao.gov/fma/aicpa50906.html

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The AICPA issued two Interpretations of Statements on Auditing Standards pertaining to auditing fair value, titled *Auditing Derivative Investments, Hedging Activities, and Investments in Securities* (AU Section 9332) and *Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value* (AU Section 9328). These interpretations clarify that a third-party confirmation does not in and of itself constitute adequate audit evidence with respect to the valuation assertion. The interpretations are posted on the AICPA website at: www.aicpa.org/download/auditstd/announce/Audit_Interpretations_Auditing_Fair_Value.pdf.

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The AICPA issued guidance outlining auditors' responsibilities when a natural disaster affects an audit client's operations. *Subsequent Events* (TIS Section 9070) discusses the impact of losses from natural disasters occurring after completion of audit field work but before issuance of the auditor's report. *Evidential Matter* (TIS Section 8345) discusses audit considerations when (1) client evidence and corroborating evidence in support of the financial statements has been destroyed by fire, flood, or natural disaster, and (2) audit documentation has been destroyed by fire, flood, or natural disaster. Both documents are posted on the AICPA website at http://www.aicpa.org/members/div/auditstd/Recently_Issued_Technical_Practice_Aids.asp

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Public Company Accounting Oversight Board (PCAOB)

The PCAOB has issued a ***Staff Question and Answer Document*** related to ***Adjustments to Prior-Period Financial Statements Audited By a Predecessor Auditor.*** This document sets forth staff opinions on issues related to the implementation of PCAOB standards, which auditors of publicly traded companies must follow. PCAOB standards and guidance do not apply to audits of government entities; however, they may be helpful to auditors performing these audits, especially when auditors encounter emerging auditing issues.

The PCAOB Question and Answer document can be accessed on the PCAOB website at http://www.pcaobus.org/

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The Institute of Internal Auditors

The IIA has revised International Standard for the Professional Practice of Internal Auditing No.1312, *External Assessments*. Standard 1312 was first adopted in January 2002; the revised standard is effective January 2007.

Revised Standard 1312 indicates that external assessments should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The potential need for more frequent external assessments as well as the qualifications and independence of the external reviewer or review team, including any potential conflict of interest, should be discussed by the chief audit executive with the Board. Such discussions should also consider the size, complexity and industry of the organization in relation to the experience of the reviewer or review team. More information about the standard is available at http://www.theiia.org/index.cfm?doc_id=5536

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The IIA has issued *GAP News*, a quarterly newsletter written for government audit professionals.

The inaugural edition, published in March, contains information about the IIA's new government initiative and how they plan to meet the needs of government auditors. The newsletter also contains the following articles: Surfing Lessons for Auditors; Hotline Best Practices; Trends in Technology; New Canadian Policy on Internal Audit; and a Toolkit of free online resources for government auditors. The newsletter can be accessed at: http://www.theiia.org/GAP/index.cfm?iid=429&quickcode=J7X1sz2.

The second edition, published in June, contains the following articles: Should Audit Committees be Mandatory for Government Agencies; Can Government Internal Auditing Really be Internal; Putting SOX on Federal Agencies; The IIA's Public-sector Training Initiative; GAP in the News; and Toolkit. The newsletter can be accessed at: http://www.theiia.org/GAP/index.cfm?iid=470&quickcode=ASpJBHP

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Relevance and Relationship of GAGAS and Other Professional Auditing Standards

The following discussion is provided to help PSU readers understand the relationship and relevance of the auditing standards issued by various standard-setting organizations.

US *Government Auditing Standards* (GAGAS) are established by the Comptroller General of the US to help ensure that auditors of government entities perform high quality work with competence, integrity, objectivity, and independence in planning, conducting, and reporting on government audits. Financial and performance audits and attestations performed by GAO normally are performed in accordance with *GAGAS.*

Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies. If there are conflicts between the standards, and the auditors cannot satisfy both standards, the auditors should provide disclosure in the auditors' report about any standards not followed and the impact on the audit.

GAGAS incorporate the AICPA's field work and reporting standards for financial audits and attestation engagements and the related statements on auditing standards (SAS) and statements on attestation standards (SSAE) unless specifically excluded or modified by GAGAS.

The American Institute of Certified Public Accountants (AICPA) establishes professional standards that apply to financial audits and attestation engagements performed by certified public accountants (CPAs) for nonissuers, such as privately held companies, not-for-profit entities, and government entities.

The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and attestation engagements that are conducted internationally. Many countries now follow IAASB standards, and the AICPA has stated that it intends to harmonize its standards with those of the IAASB to the extent practical.

The Public Company Accounting Oversight Board (PCAOB) was created by the Sarbanes-Oxley Act of 2002 to oversee auditors of publicly-traded companies in order to protect investor interest. It establishes professional standards that apply to financial audits and attestation engagements for publicly-traded companies. The PCAOB also has authority to conduct CPA firm inspections.

The Institute of Internal Auditors, (IIA) establishes standards and professional practice guidance for internal audit professionals. IIA standards may be used in conjunction with GAGAS for performance audits.

Accounting Standards

Financial Accounting Standards Board (FASB)

FAS No. 155, *Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140* issued in March 2006, amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.*

This statement permits fair value remeasurement for hybrid financial instruments that contains an embedded derivative that otherwise would require bifurcation. (Derivatives embedded or combined in other financial instruments are referred to as hybrid financial instruments.)

The statement is effective for fiscal years that begin after September 15, 2006 for all financial instruments acquired, issued, or subject to remeasurement.

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FAS No. 156, *Accounting for Servicing of Financial Assets*, simplifies the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. An entity should recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain situations.

The new Standard addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting.

The standard also:

- Clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability.
- States that a separately recognized servicing asset or servicing liability should be initially measured at fair value, if practicable.
- Permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization method or the fair value method for subsequent measurement.

This statement is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, with early adoption permitted.

The FASB documents can be downloaded from the FASB website at http://www.fasb.org/. They also are in the Audit Reference Library.

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Governmental Accounting Standards Board (GASB)

Why Governmental Accounting and Financial Reporting is—and Should Be—Different notes that individuals and organizations interested in the financial performance of state and local governments have substantially different information needs from those who follow the financial performance of for-profit entities.

These different and more diverse needs result from basic environmental differences between governments and businesses. According to the paper, the primary purpose of governments is to enhance or maintain the well-being of citizens by providing services in accordance with public policy goals. In contrast, for-profit business enterprises focus primarily on wealth creation, interacting principally with those segments of society that fulfill their mission of generating a financial return on investment for shareholders.

The white paper cites several other crucial differences that generate user demand for different information:

- Governments serve a broader group of stakeholders, including taxpayers, citizens, elected representatives, oversight groups, bondholders, and others in the financial community.
- Most government revenues are raised through involuntary taxes rather than a willing exchange of comparable value between two parties in a typical business transaction.
- Monitoring compliance with budgeted public policy priorities is central to government public accountability reporting.
- Governments exist longer than for-profit businesses and are not typically subject to bankruptcy and dissolution.

The white paper can be downloaded from the GASB website at http://www.gasb.org/.

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Regulatory Guidance

Office of Management and Budget

Office of Management and Budget (OMB) Circular A-123*, Management's Responsibility for Internal Control,* defines management's responsibility for internal control in Federal departments and agencies. In December 2004, OMB revised Circular A-123 and introduced Appendix A, which prescribes a strengthened process to assess the effectiveness of the internal control over financial reporting. In August 2005, OMB issued the first set of Frequently Asked Questions (FAQs) to provide guidance for the implementation of A-123 requirements.

Based on comments received, OMB further revised the **FAQ**s to provide additional guidance to the requirements of Appendix A. The **revised Frequently Asked Questions** can be found at http://www.whitehouse.gov/omb/circulars/index.html. An **Implementation Guide for Circular A123, Appendix A** is posted on the web site of the Chief Financial Officers Council at http://www.cfoc.gov

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In August 2005, OMB issued **Appendix B to OMB Circular A-123**. Appendix B requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Appendix B requires that agencies perform credit checks on all new purchase and travel card applicants. This implements a Congressional mandate (included in both the FY 2004 and FY 2005 Consolidation Appropriations Acts) to conduct credit assessments prior to issuing an employee a government credit card.

In the FY 2005 Treasury, Transportation and HUD appropriation bill (P.L. 109 115), Congress eliminated the requirement that agencies conduct credit worthiness assessments for purchase card applicants, but retained the requirement for travel card applicants.

Revisions to Appendix B, OMB Circular A-123, were issued as listed below:

- Credit worthiness evaluations for new purchase card applicants are no longer mandatory. However, agency officials and charge card managers may continue to require these evaluations at their discretion. At a minimum, they must remain mindful of the risks involved with charge card issuance, and continue to consider pertinent factors before issuing new purchase cards. (Section 6.1).

- Because centrally-billed travel accounts and purchase card accounts share common characteristics in terms of structure, purpose and risk, credit worthiness assessments are not required for centrally-billed travel accounts, and are to be treated in the same manner as purchase card accounts. (Section 6.6)

In addition, several technical changes are also included in this revision. Revised Appendix B to OMB Circular A-123 can be found at http://www.whitehouse.gov/omb/circulars/index.html

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OMB has issued the March 2006 **Compliance Supplement to Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*** This supplement identifies important compliance requirements that the Federal Government expects to be considered as part of an audit required by the 1996 Single Audit Act Amendments. This updated supplement provides information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit, as well as audit objectives and suggested audit procedures for determining compliance with these requirements. Additionally, the supplement also provides guidance in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included in the supplement.

Agencies should provide to OMB updated program objectives, procedures, and compliance requirements, noncompliance with which could have a direct and material effect on the individual Federal programs listed in the Supplement.

The March 2006 A-133 Compliance Supplement can be found at http://www.whitehouse.gov/omb/circulars/a133_compliance/06/06toc.html

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