



# Technical Issues Alert

Information on technical issues affecting small businesses and the CPAs who serve them.

## Quality Management Proposal Update

The Auditing Standards Board received a significant volume of comment letters on a new [quality management proposal](#) that would substantially change current requirements and affect every firm with an accounting and auditing practice. Based on a review of the comments and further deliberations, a task force overseeing the standard, in its preliminary feedback to the ASB, has initially recommended several steps that were in line with TIC's [comments](#). They include recommending that preclusion of self-inspection is inconsistent with a risk-based approach and providing a safeguards approach to permit firms to design their monitoring systems, including their responses to the review of completed engagements, are aligned with the overall intent of the standard to be risk based and scalable. As such, eliminating the exposure draft's proposed prohibition on self-inspection. The task force is also recommending, for non-issuers, to eliminate the proposed cooling-off period, which would limit a firm member's eligibility to be an engagement quality reviewer if the person had served as the engagement partner for that engagement. In addition, to address implementation period concerns, the task force is recommending that the effective date be delayed. Current TIC member Kathryn Fletcher and former TIC chair Mike Westervelt serve on the ASB quality management task forces.

Separately, to maintain consistency related to quality management, where appropriate, between the auditing standards and the statements on standards for accounting and review services (SSARSs), the AICPA Accounting and Review Services Committee has issued a proposed SSARS on [Quality Management for an Engagement Performed in Accordance with Statements on Standards for Accounting and Review Services](#). The proposed standard would amend SSARS No. 21, as amended, AR-C sections 60, *General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services*, and 90, *Review of Financial Statements*, in AICPA *Professional Standards*. The proposed effective date of these amendments is for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2024. The proposed effective date is consistent with the date that the Auditing Standards Board is currently considering with respect to the proposed revisions to AU-C section 220, *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*. The proposed SSARS also includes a technical correction to AR-C section 90 that is proposed to be effective upon issuance. Interested parties are encouraged to submit their feedback to the ARSC at [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com) by January 31. ■

### Future Meetings

TIC meetings offer local practitioners the chance to provide their unique perspectives in the standard-setting process. All CPAs are invited to attend. Contact Kari Hipsak, CPA, TIC staff liaison at the AICPA, at [kari.hipsak@aicpa-cima.com](mailto:kari.hipsak@aicpa-cima.com) to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- January 24 and 25, virtual meeting
- May 10-12, location TBD
- June 8, TIC meeting at the [AICPA Engage Conference](#), Las Vegas

The Private Companies Practice Section Technical Issues Committee (TIC) provides standard setters with the unique perspective of local CPA firms on accounting, auditing and reporting issues. We hope these highlights of issues that affect local firms will help you, your firm or your group to participate in the standard-setting process.

## New Ethics Proposals

- *Accounting Standards Implementation Services*. In its [comment letter](#), TIC supported the additional guidance that this proposal would provide on independence issues when a practitioner assists an attest client to implement new or existing accounting standards. Comments are due by December 20.
- *Unpaid Fees*. TIC agreed with this proposed revised ethics interpretation's conclusion that unpaid fees don't create advocacy threats. TIC did not agree, as currently written in the exposure draft, that partial payment of unpaid fees would provide a sufficient safeguard to eliminate or reduce threats to independence and recommended instead that the payment should be significant and should occur before the current-year attest report is issued. TIC also questioned the value of a post-issuance review as a sufficient safeguard and called for a clear indication that communication with those charged with governance alone may not be a sufficient safeguard in many entities served by smaller practitioners. Comments are due by December 20.
- *Clarification of AICPA Standards for Performing and Reporting on Peer Reviews*. Among other changes, the

exposure draft would remove the requirement that the majority of procedures in a system review should be done at the reviewed firm's office. Although generally in agreement, TIC believed that risk should ultimately drive decisions about where a review is performed and that the team captain should be the decision maker. TIC also noted that cyber threats are one element to consider when the review is performed remotely. Risk should also be a determinant in how many firm offices should be visited, TIC said. TIC advocated the use of an engagement letter in all peer reviews. TIC praised new clarifications, including the inclusion of definitions, reduction of duplicative content and better organization, and offered other suggestions to make the guidance easier to use. TIC did suggest adding the terms "piggybacking" and "reciprocal peer review" to the glossary. TIC recommended a variety of information and training resources to alert practitioners to the changes being made. Comments are due by December 15.

- *Loans, Acquisitions, and Other Transactions*. The comment deadline for these proposed revised interpretations and definition is January 5. ■

## FASB Revenue Recognition PIR

The FASB is conducting a [post-implementation review](#) (PIR) of Topic 606, *Revenue from Contracts with Customers*. In a recent meeting with FASB staff engaged in this review, TIC discussed implementation concerns related to short-cycle manufacturing contracts, based on experiences with their private company clients. In a past [letter](#) to the FASB, TIC noted challenges in this area, asked for further clarification on how private companies

should deal with enforceable rights and obligations and recommended a practical expedient.

The topics that TIC discussed recently with FASB staff included the lack of a definition of a "short cycle," issues related to custom manufacturing, enforceable right to payment challenges, over time vs. point in time recognition and inappropriate acceleration of revenue recognition in this area. ■

## FASB Interim Reporting ED

Proposed Accounting Standards Update, *Interim Reporting (Topic 270): Disclosure Framework—Changes to Interim Disclosure Requirements*, would, among other changes, require disclosure in interim periods when significant transactions have occurred. The proposal, which would apply to all entities that

provide interim financial statements and notes in accordance with GAAP, would also clarify disclosure and presentation requirements and establish when comparative disclosures are required. Comments are due by January 31. ■

## Audits of Less Complex Entities

The International Auditing and Assurance Standards Board (IAASB) has issued a proposed standard on *Audits of Financial Statements of Less Complex Entities*. The standard would address issues for smaller organizations related to the complexity, understandability and scalability of current standards, according to the IAASB. It aims to provide high-quality, streamlined requirements targeted at less complex entities and promote consistent application of auditing standards in audits of these organizations. It is based on underlying concepts from current international auditing standards and intended to offer the same level of assurance

but be scaled for use by smaller, less complex entities. It would be a standalone standard.

TIC member Mike Brand and former TIC member Mike Manspeaker are members of a task force of the AICPA Auditing Standards Board (ASB) that is considering the exposure draft and drafting a comment letter that the ASB will submit by the comment deadline of January 31, 2022. The Task Force and staff of the AICPA's Audit & Attest Standards Team are also engaged in discussions of the proposed standard with other jurisdictions outside the United States. ■

## Prepare for the New Risk Assessment Standard

Are you familiar with SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*? A new [webcast](#) offers details on this standard, which clarifies and enhances the requirements and guidance

on the identification and assessment of the risks of material misstatement. SAS No. 145 becomes effective for audits of financial statements for periods ending on or after December 15, 2023. ■

## GASB Update

- *The Annual Comprehensive Financial Report*. The board issued this guidance as GASB Statement No. 98. It renames the existing report and changes its acronym to ACFR. The statement is effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.
- *Financial Reporting Model Improvements and Recognition of Elements of Financial Statements*. After reviewing comments on these EDs, the board has decided to retain many of its original proposals. That includes establishing that recognition in government funds would follow the proposal's short-term approach, a choice TIC had advocated.
- *Compensated Absences—Reexamination of Statement 16*. In deliberations on stakeholder comments on this ED, the board tentatively decided that salary-related payments for defined contribution pension and OPEB plans that are related directly or incrementally to absences can be reported as a compensated absence liability. The definition of compensated absences has also been updated.
- Ongoing projects on the board's agenda include one on [risks and uncertainties disclosures](#) and on [nonfinancial assets](#). ■

### Let Us Hear from You

If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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