



# Technical Issues Alert

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

## Practitioners Urged to Comment on Quality Management Proposal

Practitioners are encouraged to comment on a [firm quality management proposal](#) that will make substantial changes to existing requirements, including the creation of a new risk-based approach and risk assessment process.

The guidance included in these exposure drafts will affect every firm with an accounting and auditing practice. As the ED contains significant changes to multiple areas, the AICPA has created a number of [related resources](#), including an explanatory memorandum, executive summaries of each section of the proposal, a comment letter template and

comparisons with other standards. While these executive summaries are not a replacement for review of the entire ED, they do provide a high-level overview of each proposed new standard as well as the overall project.

TIC plans to submit a comment letter by the August 31 deadline. If you have comments, questions, or suggestions related to this ED that you would prefer to provide directly to TIC for consideration to be included in their comment letter, please feel free to submit those comments to [mike.austin@aicpa-cima.com](mailto:mike.austin@aicpa-cima.com). ■

## TIC Concerns on Proposed NOCLAR Ethics Rules

TIC expressed serious concerns about proposed ethics guidance that would apply when CPAs find or suspect noncompliance with laws and regulations (NOCLAR). The AICPA Professional Ethics Executive Committee exposure draft of an interpretation and definition, [Responding to Noncompliance with Laws and Regulations](#), would make significant changes to current practice.

In its [comment letter](#), TIC pointed out that this subject is already sufficiently addressed elsewhere, such as in the auditing literature. While TIC agrees that actual or suspected NOCLAR should be reported when the CPA becomes aware

of it, the proposal as written could give the impression that additional procedures or responsibilities are required. The scope paragraphs give a broad definition of NOCLAR, but do not express that the CPA's responsibility is limited to the requirements related to the respective level of service. This could create an expectations gap between what members are actually required to do and what the public expects. TIC recommends the scope paragraphs should express that the member is only expected to have a level of knowledge of laws and regulations consistent with that required to undertake the engagement.

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### 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 Mike Austin, CPA, TIC Staff Liaison, at the AICPA at [mike.austin@aicpa-cima.com](mailto:mike.austin@aicpa-cima.com) to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- September 27-29, TIC liaison with the PCC, FASB and GASB (virtual)
- November 9 and 10, virtual TIC meeting
- January 24 and 25, TIC liaison with the Auditing Standards Board

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.

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The proposal does exempt practitioners who become aware of matters that are "clearly inconsequential." However, TIC noted that it may be difficult to determine what falls within this category. TIC called for a better definition of the term or examples of when it would apply.

TIC also asked for clarification of the expanded definition of "noncompliance" in order to establish that a member's responsibilities do not exceed CPAs training and expertise or the scope of the engagement. Otherwise, misperceptions

could expose members to significantly greater liability. TIC offered a number of suggested revisions that would help to clarify the limits of a CPA's requirements.

TIC also questioned whether the current proposed effective date, of one year after notice is published in the *Journal of Accountancy*, leaves enough time for practitioners to prepare for the proposed changes and requested guidance on transition requirements for engagements in process at the effective date. ■

## ASB NOCLAR Proposal

TIC questioned the necessity of a proposed statement on auditing standards from the Auditing Standards Board, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations (NOCLAR)*.

Existing guidance establishes which matters a successor auditor may inquire about with the predecessor, including communications to those charged with governance about fraud and noncompliance with laws and regulations (NOCLAR) by the entity. This proposed SAS would require auditors to ask the predecessor auditor about fraud and NOCLAR matters once management authorizes the

predecessor auditor to do so. In its [comments](#), TIC noted that current requirements in this area are sufficient and that the proposal would not enhance red flags or the sharing of knowledge between predecessor and successor auditor.

TIC recommended that the ASB should wait to determine what changes, if any, are necessary until after the Professional Ethics Executive Committee has finalized addressing its own NOCLAR guidance. If any auditing standards are changed, they should be limited to matters communicated with those charged with governance. ■

## FASB Leases Discount Rate Practical Expedient

A Financial Accounting Standards Board [proposed Accounting Standards Update](#) is intended to improve discount rate guidance for lessees that are not public business entities, including private companies, not-for-profit organizations and employee benefit plans. The goal is to lower implementation costs for the FASB [lease standard](#) (Topic 842) for those entities while retaining the expected benefits for financial statement users.

Under Topic 842, lessees that are not public business entities have a practical expedient that allows them to make an accounting policy election to use a risk-free rate as the discount rate for all leases. The FASB said that the intention was to allow those lessees to avoid unnecessary

cost and complexity associated with calculating an incremental borrowing rate. However, some private company stakeholders expressed reluctance to use the risk-free rate election for all leases, since it could increase an entity's lease liabilities and right-of-use assets in some situations. The proposed amendment would allow lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also would require that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee would use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. TIC's comment letter on this proposal can be found [here](#). ■

# GASB Proposal on Accounting Changes and Error Corrections

A new Governmental Accounting Standards Board ED, *Accounting Changes and Error Corrections*, aims to improve reporting requirements in these areas to provide information that is easier to understand and more reliable, relevant, consistent and comparable across governments for making decisions and assessing accountability. It addresses accounting and financial reporting requirements for:

- Changes in accounting principles.
- Changes in accounting estimates.
- Changes to or within the financial reporting entity.

- Corrections of errors in previously issued financial statements.

GASB research had found diversity in practice in applying existing standards, including issues with choosing the right category of accounting change and error correction. The proposal would establish accounting and financial reporting guidance for each category of accounting changes and error corrections, including display in financial statements, note disclosures, and presentation in required supplementary information and supplementary information. Comments are due by August 31, and TIC will comment on this exposure draft. ■

## Attest Update

- The ASB has issued SAS No. 144, *Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources*. It amends SAS No. 122, as amended, sections 501 and 620, and SAS No. 143, *Auditing Accounting Estimates and Related Disclosures*, to address certain comments that were received on the exposure draft that resulted in the issuance of SAS No. 143. Among other things, the SAS provides guidance in AU-C section 501 on applying SAS No. 143 when management has used the work of a specialist in developing accounting estimates, as well as other amendments to enhance guidance about evaluating the work of the management's specialist; adds a new appendix to AU-C section 540 that provides guidance on the use of pricing information from pricing services when evaluating management's estimates related to the fair value of financial instruments; and enhances the guidance in AU-C section 620 related to using the work of an auditor's specialist. Read the [At a Glance](#) for additional details. The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2023.
- The ASB has issued Statement of Position (SOP) 21-1, *Performing Agreed-Upon Procedures Related to Rated Exchange Act Asset-Backed Securities Third-Party Due Diligence Services as Defined by SEC Release*

*No. 34-72936*, to revise and supersede SOP 17-1 of the same title and reflect the changes to agreed-upon procedures engagements introduced by Statement on Standards for Attestation Engagements No. 19, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, AT-C sec. 215). SOP 17-1 was developed based on the guidance in SSAE No. 18, *Attestation Standards: Clarification and Recodification*, AT-C section 215, and SSAE No. 19 superseded that guidance to provide flexibility to a practitioner performing an agreed-upon procedures engagement. This SOP provides practitioners with guidance and considerations for performing agreed-upon procedures (AUP) engagements related to rated asset-backed securities issued in accordance with the Securities Exchange Act of 1934, as amended, when those AUP engagements fall within the definition and scope of *third-party due diligence services* (referred to as "covered services" in the SOP) as defined in the SEC rules as amended or adopted by SEC Release No. 34-72936, *Nationally Recognized Statistical Rating Organizations*, and the SEC Release No. 34-72936 accompanying text (the release). The SOP is effective for agreed-upon procedures reports dated on or after July 15, 2021. Early implementation is permitted.

- A new [webcast](#) highlights the fundamentals of artificial intelligence and how AI and technologies such as machine learning, deep learning, automation and RPA

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interconnect and impact on the audit and the auditor. Mary Grace Davenport and Michael Paterson of PwC speak about experiences with using AI in their audits and how it is changing the audit profession. The webcast will

take place on August 16 from 1 to 2.30 EDT and will be available for three months after the broadcast date. For a 25% discount use code: AIPROMO25 ■

## TIC News

- Adam Roark, who recently completed a term on TIC, has joined the Private Company Council. He is one of four former TIC members on the PCC, including Candace Wright, PCC chair.
- Numerous current and former TIC members are among the speakers at the 2021 Engage Conference. Sessions take place in person and online from July 26 to 29. ■

### Let Us Hear from You

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

#### **Bryan Bodnar, CPA**

*TIC Chair*  
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#### **Mike Austin, CPA**

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