

Technical Issues Alert

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



Comments Called for on Proposed Changes to Quality Management

Practitioners are urged to comment on a [firm quality management proposal](#) that will make substantial changes to the current requirements. The new Auditing Standards Board exposure draft would replace the existing quality control framework for firms and fundamentally change the way firms approach quality management. It would replace existing guidance contained in Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control*, and in selected Statements on Auditing Standards (SASs). The document consists of two standards, Systems of Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*, and SQMS No. 2, *Engagement Quality Reviews*, as well as a proposed SAS, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

TIC's initial discussion of the document focused on several areas, including the new risk assessment process and potential associated resources for firms; the role of the engagement partner and firm leadership; the guidelines

for self-inspection; the cooling-off period for engagement quality reviewers; the dating of the report; and what effective date would allow enough time for firms to implement the requirements and vendors the opportunity to create related resources. TIC also considered scalability and costs of compliance for small firms.

The comment deadline has been extended to August 31. Given the significant impact that the document would have, practitioners are strongly encouraged to comment. While the proposal sets forth nine questions for comment, practitioners may answer only the ones that address their concerns. TIC plans to finalize its comment letter points at its upcoming meeting in June.

Upcoming [roundtables](#) with ASB members on the proposed quality management standards provide a summary of the statements and include live Q&A time. Participants at the roundtables can earn free CPE. ■

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 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- June 7, 2021, virtual TIC meeting
- September 27-29, TIC liaison with the PCC, FASB and GASB
- November 9 to 10, TIC meeting

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.

Proposed NOCLAR Auditing and Ethics Standards

Two exposure drafts are proposing new guidelines for situations in which CPAs encounter or suspect noncompliance with laws and regulations (NOCLAR). Practitioners should be aware that an ethics proposal would make significant changes to existing practice.

Responding to Noncompliance With Laws and Regulations.

Under this Professional Ethics Executive Committee ED, members performing attest services who discover or suspect NOCLAR would be required to obtain an understanding of the matter, discuss it with management and those charged with governance (if appropriate) and advise management to rectify the problem. A member providing attest services would be required to document the matter and actions considered or taken. Those providing nonattest services would be required to seek an understanding of the issue and communicate it to management and those charged with governance as soon as possible. The member would be encouraged but not required to document some aspects of NOCLAR. In both cases, if management doesn't respond appropriately, the member is required to consider whether it's necessary to withdraw from an engagement, unless prohibited by law or regulation. The interpretation would not apply to parties other than the client.

In its initial review of this ED, TIC members focused on concerns about the scope of the proposed standard,

including the types of NOCLAR and who might potentially be impacted, the member's responsibility in cases of suspected NOCLAR, and the proposed requirements for those who perform nonattest services. TIC also discussed areas where terms should be better defined and liability considerations. (See [TIC's comments](#) on an earlier proposal on this topic.)

Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws And Regulations. The ASB ED, which amends AU-C Section 210, *Terms of Engagement*, aims to facilitate communication between predecessor and successor about the audit implications of an identified or suspected NOCLAR. It would require an auditor, after management authorizes the predecessor auditor to respond to inquiries from the auditor, to ask the predecessor auditor about identified or suspected fraud or noncompliance with laws or regulations. If management refuses to authorize this communication, the successor auditor should consider whether it is advisable to accept the engagement. The predecessor must respond fully and timely and must indicate if the response is limited. The auditors are not required to report fraud or NOCLAR to outside parties.

The comment deadline for both EDs is June 30. TIC plans to comment on both. ■

TIC Meets with FASB Staff

TIC regularly meets with members and staff of standard-setting bodies to receive updates on guidance in development and to share the private company perspective. The following topics were discussed in their most recent meeting with staff members of the Financial Accounting Standards Board:

Interim financial reporting. TIC offered perspective on interim reporting by private companies and many not-for-profits. TIC members noted that private companies normally share financial statements--typically consisting of a balance sheet, income statement and possibly a condensed cash flow statement--on a monthly or quarterly basis as required by their bank to comply with covenants. The financial statements may be based on US GAAP principles but often do not include all of the adjustments that management would make in preparing the annual financial statements. They noted that there are rarely any audit or other attest services applied to the interim statements. The financial statement

users have access to management if more financial information or explanatory detail is needed.

Update 2021-03, Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events. FASB staff offered an update on the changes made to the document from the initial proposal through the final document.

Leases. FASB staff reported on related decisions made at the board's [April meeting](#). The staff is doing a post-implementation review of the project to identify potential necessary modifications. TIC reported that participants at [AICPA Town Halls](#) have been asking about possible further effective date delays for the standard.

PCC Research Project—Profits Interests and Their Interrelationship with Partnership Accounting. TIC has previously called for further guidance on profits interest agreements, which are an equity right that gives the holder

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an interest in the future profits and appreciation of an LLC. The FASB is seeking volunteers to participate in outreach on issues that include the admission of a service-only partner and a partnership agreement that changes the allocation of profit and loss between existing partners. Adam Roark from TIC is participating in the PCC working group.

Disclosures by Business Entities about Government Assistance. FASB staff thanked TIC members for volunteering to offer insights on private company disclosures for this ongoing project.

Current issues in financial reporting. TIC and FASB staff discussed current client questions on appropriate levels of disclosures for private companies on the effects of COVID-19 and Paycheck Protection Program loan classification.

FASB staff also provided an update on the board's [Agenda Consultation](#) project in process that is identifying areas in need of improvement in GAAP.

PCC Issue No. 2018-01, Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards. The PCC expects to issue a draft of the final Update in June.

Reference rate reform. Accounting Standards Update 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, was issued last year. FASB is considering next steps since the sunset date for the expiration of the US London Interbank Offered Rate (LIBOR) has been extended to mid-2023. ■

GASB ED on Compensated Absences

This [exposure draft](#) would update the definition of a compensated absence and would establish a unified model for recognition and measurement for all types of compensated absences. In its discussions, TIC opposed the proposed model and instead recommended incremental changes to current guidance. While TIC appreciated the updated definition of a compensated absence, TIC believes the exposure draft increases cost and complexity by introducing judgment in estimating amounts of leave that are more likely than not to be paid.

The comment deadline for the ED is June 4 and TIC plans to comment.

Practitioners should be aware of another recent GASB ED, [The Annual Comprehensive Financial Report](#), which changes the nomenclature of an existing report. It makes no other changes to existing guidance. ■

New Resources for Practitioners

- [The Center for Plain English Accounting](#) has released a variety of reports on accounting and audit issues related to the pandemic, classification of debt, issues related to Paycheck Protection Program loans and other relief programs, and FASB leases guidance.
- In response to a need on the part of entities determining whether blockchain technology would solve their business problem, AICPA® & CIMA® and the Information Systems Audit and Control Association (ISACA®) issued a joint publication: [Blockchain Risk: Considerations for Professionals](#). This publication identifies risks associated with enabling blockchain technology.
- As the digital asset ecosystem evolves, the auditor continues to be presented with unique risks and challenges when performing an audit. The AICPA is updating the practice aid, [Accounting for and Auditing of Digital Assets](#) for the following new topics: Risk Assessment and Processes and Controls and Laws and Regulations and Related Parties. In addition, appendix A, [Blockchain Universal Glossary](#), has been added to the practice aid which was developed as a reference for all AICPA & CIMA blockchain and digital assets related content. ■

TIC News

As a new committee year began in May, there were a number of changes in TIC's ranks.

- Bryan Bodnar, BKD, LLP, Springfield, MO, became the new chair of TIC. Bryan is a former chair of TIC's Zone 1, which follows accounting issues proposed by the AICPA and the FASB. He replaces outgoing TIC chair Danielle Supkis Cheek, of PKF Texas, in Houston. Danielle is now the US Representative to the International Federation of Accountants (IFAC) Small and Medium Practitioners Committee.
- Julie Killian, Clayton & McKervey, Southfield, MI., will become vice chair of TIC. She is immediate past Zone 1 chair.
- Michael Cheng, Frazier and Deeter, Atlanta, GA, became the new Zone 1 chair. Kathryn Fletcher, Draffin and Tucker, LLP, Atlanta, became the new chair of Zone 2, which covers audit, attest, preparation, compilation, review, ethics, and peer review issues. Danny Martinez, BKD, LLP, in Dallas, TX, continues as chair of Zone 3, which follows government audit and accounting issues as set forth by GASB.

Outgoing TIC members include:

- Scot Loyd, Swindoll, Janzen, Hawk & Loyd LLC, Hutchinson, KS.
- Michael Manspeaker, Smith Elliott Kearns & Company, LLC, in Hagerstown, MD, and outgoing Zone 2 chair, will roll off but will continue as a telephonic member of Zone 2, participating in Zone planning calls. He has joined the AICPA Accounting and Review Services Committee.
- Adam Roark, Dixon Hughes Goodman LLP, Charlotte, NC, will continue as a telephonic member of Zone 1.

New TIC members include:

- Alan Bowers, Carr, Riggs & Ingram, Albuquerque, NM.
- Mike Brand, BMSS Advisors and CPAs, Huntsville, AL.
- Lesley Hargraves, Maxwell Locke & Ritter, Austin, TX.

In addition, TIC is bidding a fond farewell to Kristy Illuzzi, TIC's staff liaison for the last five years, who will be joining IFAC to be principal, SME/SMP and Research. Mike Austin, CPA, senior manager, Small & Medium Firms Support & Advocacy, will be the new TIC staff liaison. ■

Let Us Hear from You

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

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