



Technical Issues Alert

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

TIC Meets with Auditing Standards Board

At TIC's annual liaison with the Auditing Standards Board, TIC and ASB members discussed these timely topics:

Quality Management. This proposal, issued today, will make significant changes to what are currently known as quality control standards. The discussion focused on best ways to inform practitioners about the proposal, types of examples and information that can enhance understanding of it and best timing for a comment letter deadline. Practitioners are strongly encouraged to comment on this exposure draft as TIC believes some of the requirements will be challenging to implement for many PCPS firms. Comments are due by June 11.

Risk Assessment. TIC and ASB members discussed comments received on a proposed statement on auditing standards on *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, including TIC's [comments](#). TIC's concerns related to scalability, the definition of a relevant assertion, and implementation tools, such as a flowchart or diagram, that would help practitioners

understand the risk assessment process. TIC offered to help develop these tools and volunteered members to be part of a task force that will work on a risk assessment guide.

Group Audits. Meeting participants discussed the direction of this project in process and current implementation challenges.

Audits of Less Complex Entities and Scalability. Areas that pose challenges include risk assessment and documentation, journal entries, the tendency to follow the same procedures as the previous year, accounting estimates, maintaining relevance in standards, artificial intelligence, and ways to improve guidance and educational materials. A TIC member will serve on a recently formed task force to address the issues as the IAASB moves head with their proposal on audits of less complex entities (LCEs).

The Future of Attest Engagements. The discussion considered ways to modernize existing standards and insights on marketplace needs. ■

Questions on FASB Goodwill Practical Expedient

In recent meetings with Financial Accounting Standards Board members and staff, TIC has drawn attention to the challenges facing private companies in accounting for goodwill and asset impairment in light of the COVID-19

pandemic. TIC had requested a practical expedient. Late last year, the FASB issued an exposure draft, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for*

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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 Kristy Illuzzi, CPA, TIC Staff Liaison, at the AICPA at (919) 402-4057 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- May 9-10, 2021, virtual TIC meeting
- June 7-10, 2021, TIC meeting and participation in AICPA Engage Conference
- September 27-29, 2021, TIC liaison with the PCC, FASB and GASB

The PCPS 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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[Evaluating Triggering Events](#), intended to offer potential relief for private companies.

In its [comment letter](#), TIC expressed appreciation for the proposal but also raised serious concerns about it. If the guidance is properly scoped, TIC believes it could provide welcome relief to private companies and not-for-profits (NFPs) that are already under pressure because of COVID-related disruptions. However, most private companies would not be able to benefit from the alternative as offered, according to TIC, because entities that issue US GAAP compliant interim financial information that presents

goodwill or any line item that would be affected by a goodwill impairment are not eligible to use it. To comply with debt covenants or other requirements, most TIC constituents do submit some form of interim financial information, prepared in accordance with US GAAP, to lenders. While lenders do seek timely updates on private company cash flows, liquidity, solvency metrics, and NFP service efforts, they typically don't focus on goodwill impairment information. TIC asked for a change of focus or further clarification that would allow private companies and NFPs that only issue a full set of financial statements as described in ASC 205 on an annual basis to adopt this valuable simplification and relief. ■

TIC Update with FASB Staff

TIC recently met with FASB staff members as part of its regular outreach to standard setters. FASB Chair Richard Jones was also in attendance. TIC offered feedback on the FASB proposal on goodwill (see separate article above) as well as numerous other topics.

Agenda Consultation. This project in process is part of an effort to identify areas in need of improvement in GAAP. The board is conducting research now and hopes to issue an Invitation to Comment discussion paper in June. Topics covered in the meeting included TIC members' suggestions on areas to address, such as simplifying or defining the discount rate in lease guidance for private companies, grant accounting, the VIE consolidation model, software for sale, partnership accounting, debt versus equity, related parties and digital assets.

PCC Issue No. 2018-01, Practical Expedient to Measure Grant-Date Fair Value of Equity Classified Share-Based Awards. FASB staff reported on providing the Private Company Council with an overview of feedback received, including topics such as expected cost benefits and which awards fall within the intended scope. The staff is developing further analysis for the PCC.

Disclosures by Business Entities on Government Assistance. TIC volunteered to identify members who might be willing to offer

feedback for this project, which is examining what disclosures are now being made by private companies and what changes may be needed.

Proposed Accounting Standards Update—Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. In its comments, TIC will support this project and thank the board for seeking TIC feedback on the proposal when it was in development.

Other topics included:

- *Identifiable Intangible Assets and Subsequent Accounting for Goodwill.* The FASB is in the process of reviewing feedback on an exposure draft.
- *Revenue Recognition—Practical Expedient for Private Company Franchisors.* A final standard is expected in early February. TIC supports the intention of the project.
- *Share-Based Payment Disclosures Research Project.* The board decided to remove this project from the research agenda. ■

New GASB Proposals

TIC is weighing in with comments on three new Governmental Accounting Standards Board proposals.

- *Revenue and Expense Recognition.* This preliminary views document would implement some of the greatest conceptual changes to governmental accounting since GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and*

Local Governments, which was issued in 2009. Accordingly, in its initial review of the document, TIC recommended that if the PV becomes a standard it should have its own concepts statement dedicated to it, which would encompass all the background knowledge necessary for understanding and implementation, as well as an implementation guide. TIC also planned to ask that the effective date of any final standard should be phased in

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based on government size. Among other suggestions, TIC planned to ask for clarification on why some items were scoped out of the document. Comments are due by February 26 and TIC will comment.

- **Financial Reporting Model Improvements.** This proposed statement would make a number of changes in format and terminology used in financial statements of governments. Short-term financial resource flows statements for governmental funds would be presented using the current and noncurrent activity format. The governmental fund balance sheet would be called the "Short-Term Financial Resources Balance Sheet" and the governmental fund resource flows statement would be the "Statement of Short-Term Financial Resource Flows." The fund financial statements would not use the terms *revenues* and *expenditures*, replacing them with *inflows* and *outflows* of resources from current activities. In its comment letter, TIC will express concern that the use of new terminology might be confusing for financial statement users, especially if local government leaders and the public continue to use the old terms. The proposed addition of a new column on variance between the original and final budget to the budgetary information could also add confusion and TIC questioned

the need for this change since the information is already accessible.

TIC did appreciate the fact that smaller governments are given more time to implement the standard. The requirements would be effective based on a government's total annual revenues in the first fiscal year beginning after June 15, 2022. Governments with total annual revenues of \$75 million or more would be required to apply the requirements for fiscal years beginning after June 15, 2024, and those with total annual revenues of less than \$75 million would be required to apply the requirements for fiscal years beginning after June 15, 2025. Earlier application would be encouraged. Comments on the proposal are due by February 26. Danny Martinez, who chairs the TIC subcommittee on government accounting, will attend [public hearings and user forums](#) on financial reporting model improvements in March and April.

- **Implementation Guidance Update—2021.** In its *comments* on this proposal, TIC appreciated GASB's addition of questions and answers related to the new lease standard. TIC made suggestions and asked for further clarification in relation to questions in the document on fiduciary activities and leases. Comments are due by February 15. ■

AICPA Releases TQAs on Third-Party Assessments Engagements

AICPA [Technical Questions and Answers \(TQA\) 9550.01 – .02](#) (AICPA, *Technical Questions and Answers*) provide nonauthoritative guidance relating to performing third-party assessment engagements. Specifically, the TQAs provide guidance with respect to the characteristics of a third-party assessment program and the standards a member is required to apply to the third-party assessment engagement. The guidance states that because a third-party assessment engagement constitutes a professional service, the member is required to comply with the AICPA *Code of Professional Conduct*.

In addition to the AICPA Code and the requirements or instructions of the third-party assessment program, members who are engaged to issue or do issue a practitioner's examination, review, or agreed-upon procedures report in connection with the third-party assessment engagement are required to perform the engagement in accordance with Statements on Standards for Attestation Engagements. The guidance also states that the member may apply the Statement on Standards for Consulting Services when performing the third-party assessment engagement. ■

New Non-Authoritative Guidance on SOC Examinations and New Paper on Blockchain

The AICPA staff has issued nonauthoritative guidance on selected practice matters raised by members in connection with SOC 2® and SOC 3® examinations. The [Frequently Asked Questions: SOC 2® and SOC 3® Examinations](#) (FAQs) represent the views of AICPA staff based on the input of members of the AICPA Assurance Services Executive Committee's SOC 2® Working Group. The FAQs address the following topics:

- Change in the Opinion on Design and Operating Effectiveness

- Trust Services Categories Addressed
- Common Controls to meet the Trust Services Criteria
- SOC Providers
- Considering the Appropriate Period of Time for a SOC 2 Examination
- Lack of a Board of Directors
- SOC 2 Examination that Addresses Additional Subject Matters and Additional Criteria

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- Use of Sampling
- Laws and Regulations
- Procedures for Testing Operating Effectiveness
- Consideration of Materiality in a SOC 2 Examination
- SOC 3 Examinations
- SOC Logo for CPAs

The AICPA's Assurance Services Executive Committee's Implications of Blockchain on SOC 1 and SOC 2 working group has published the paper, "[Implications of the Use of Blockchain](#)

[in SOC for Service Organization Examinations.](#)" The objectives of this paper are to educate the service auditor about some of the unique aspects of blockchain and to discuss the implications of the use of blockchain in a system used to provide services to user entities of a SOC for service organization report. The paper includes examples of how service organizations might use blockchain in a system used to provide services to user entities, as well as additional AICPA resources for service auditors who want to learn more about blockchain. For additional SOC resources please visit the [Service Organization Controls: SOC Suite of Services](#) page. ■

Let Us Hear from You

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

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