



Technical Issues Alert

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

TIC Discusses Ethics Standard Setting with PEEC

As part of its mission, TIC meets with standard setters to share insights on issues related to private companies and the firms that serve them and to gather information on standards in development. These issues were discussed at TIC's recent liaison meeting with the AICPA Professional Ethics Executive Committee (PEEC).

Information System Services. This proposed revised ethics interpretation was undertaken to address inconsistencies in the application of current guidance. In its discussion with PEEC members, TIC noted the rapid pace of change within the technology sector and suggested that a principles-based approach could make the guidance more adaptable to new tools and developments. TIC members shared examples from their own practices and described potential difficulties in applying the proposal, including challenges for contracts that are currently in place. They also discussed concerns about implementation of the proposal in a continuous auditing environment. Comments are due by June 15. TIC plans to issue a comment letter right after their June 13 meeting.

Staff Augmentation. PEEC is considering ethics issues that may arise when firms loan staff to audit clients. A task force is preparing a draft interpretation.

Voluntary Tax Practice Reviews. PEEC members discussed a planned interpretation on whether these reviews, which are similar to peer review, obligate CPAs to obtain client consent to disclose client information to tax practice reviewers.

Proposed Revisions to the Attestation Standards. A proposed [Statement on Standards for Attestation Engagements](#) would create a new attestation service that would expand a practitioner's ability to perform procedures and report in a procedures and findings format beyond that currently provided by AT-C section 215, *Agreed-Upon Procedures Engagements*. PEEC is considering how independence requirements might apply to it. In their May 2018 meeting, the Auditing Standards Board voted to issue an exposure draft which should come out this summer.

Long Association of Senior Personnel with an Ethics Client. TIC expressed appreciation for the issuance of [FAQs](#) on this topic, a step that addressed some of TIC's [comments](#) on the original exposure draft (ED) for a possible interpretation. TIC noted some inconsistencies between this guidance and items in the peer review checklist. A [Journal of Accountancy article](#) explains the FAQs.

Hosting Services. TIC discussed questions that arise in practice related to existing guidance on this topic. TIC members agreed to share ideas for additional Qs & As to address these issues.

International standard setting and convergence issues. TIC members noted the value of including the small firm perspective early in the process in order to ensure that standards address the unique concerns in this area. They volunteered to participate in PEEC's work at the international level.

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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:

- June 11-14, Las Vegas, NV: TIC participation in AICPA Engage Conference, including TIC meeting with select PCC and FASB board and staff members on June 13
- August 14 and 15, Seattle, WA: TIC's annual liaison with ARSC
- October 8-10, Norwalk, CT: TIC's annual liaison with the FASB, GASB, and PCC
- January 15 and 16, 2019, Location TBD: TIC's annual liaison meeting with the ASB
- May 7 and 8, 2019, Charlotte, NC

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Review of exposure draft comments. PEEC is reviewing comments received during the exposure process on:

- [Responding to Non-Compliance with Laws and Regulations](#) (see [TIC's comment letter](#)).
- [State and Local Government Entities](#) (see [TIC's comment letter](#)).
- [Leases Interpretation](#) (see [TIC's comment letter](#)).

FASB Update

TIC maintains regular contact with staff of the Financial Accounting Standards Board. Standard-setting issues discussed in a recent phone call between TIC members and FASB staff included:

Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). Late last year, TIC [notified FASB staff of issues](#) that private companies are facing as they address implementation of this standard. TIC members noted that, since many private companies don't have extensive systems and controls to properly allocate revenues, they may struggle with the guidance. During the phone call, the FASB discussed its follow up on one of these issues—out of pocket expenses—including outreach to public companies that are already implementing the standard. TIC members noted the urgency of any response to private company issues, since private companies are now beginning to invest in systems in anticipation of the pending effective date for their organizations. The FASB and PCC plan to discuss some of these issues and the outreach done to date at the PCC Town Hall meeting at the AICPA Engage Conference.

Proposed ASU, Leases (Topic 842): Targeted Improvements. TIC and the FASB staff discussed [steps](#) the FASB board has taken to address implementation issues, including a new transition option for retained earnings and a practical expedient that can allow lessors not to apply the separation and allocation guidance. TIC members reported on potential challenges related to the interpretation of the concept of legal enforceability. TIC noted the value in monitoring this issue going forward since some implementation issues may not arise until the effective deadline for private companies nears. TIC also noted that there could be diversity in practice on how entities apply this guidance to leases between related parties.

Proposed ASU, Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and

PEEC posts their [open meeting agendas and related materials](#), including minutes, on the [AICPA website](#) and also offers a [hotline service](#) for any ethics and independence questions. TIC would encourage practitioners to keep abreast of upcoming PEEC proposals and to provide any comments or related potential implementation issues as applicable. ■

Contributions Made. TIC noted potential implementation issues that could arise related to the proposed effective date of the revenue recognition standard and the expected issuance date of this proposed guidance. TIC members also discussed the impact on not-for-profit conduit debt obligors (CDOs) and urged the FASB to take another look at the effective date for CDOs as TIC believes in many cases that many not-for-profit CDOs operate much more like a private company and therefore should be treated as such for purposes of the effective date and also have less extensive disclosure requirements. A [FASB in Focus](#) article offered more details on this ED. Practitioners should look for issuance of final guidance soon.

Proposed ASU, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements (A Consensus of the FASB Emerging Issues Task Force). TIC did not issue a comment letter on this ED, but committee members are generally supportive of it. The guidance would apply to both external and internally developed arrangements.

Additional issues. TIC received updates on FASB projects on share-based payments for employee compensation, consolidations and liabilities vs. equity. In addition, TIC discussed concerns about the numerous unique definitions of a "public business entity" in the FASB Accounting Standards Codification's Master Glossary. TIC members also discussed the issue of private companies moving to non-GAAP reporting options as a result of some of the newly issued standards that create additional complexity and more extensive disclosure requirements. ■

Proposed Guidance on Collaborative Arrangements

A proposed Accounting Standards Update, [Collaborative Arrangements \(Topic 808\): Targeted Improvements](#), would make targeted improvements to clarify the accounting for some arrangements between participants working together on a business arrangement. In particular, it would address when to apply the guidance in ASC 606, accounting for transactions that don't create revenue for the partners, and what constitutes a unit of account within Topic 808.

TIC believes that the proposal can bring standardization to an area where there is now diversity in practice for basic arrangements. The ED is expected to help identify the customer involved and help establish which party will show revenue, as well as align guidance in this area with revenue recognition rules. Comments on the ED are due June 11. See TIC's comment letter [here](#). ■

Audit and Attest Update

- The Auditing Standards Board has issued [auditing interpretation No. 4](#), “Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB,” to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, [Professional Standards](#)). It provides guidance on how an auditor complies with AU-C section 700 in the context of PCAOB Auditing Standard (AS) 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, adopted by the PCAOB and approved by the SEC. While auditing interpretation No. 4 has been determined to be consistent with GAAS, the interpretation should not be construed to be an interpretation of PCAOB standards.
- [Technical Questions and Answers \(TQA\) 6935.03–.06](#) (AICPA, [Technical Questions and Answers](#)) offers nonauthoritative guidance relating to multiemployer plan payroll compliance services (often referred to as *payroll audits*) when a practitioner is engaged to perform payroll compliance procedures as an agreed-upon procedure engagement in accordance with AT-C section 215, *Agreed-Upon Procedures Engagements* (AICPA, [Professional Standards](#)). The TQAs discuss requesting and obtaining the engagement letter, requesting and obtaining the representation letter from the engaging party, the situation when requested representations are not obtained from one or more responsible parties, and the use of agreed-upon procedures reports or other reports as audit evidence. Q&A section 6935 has been retitled *Multiemployer Plans* and former TQAs 6935.01–.02 have been transferred to Q&A section 6933, *Auditing Employee Benefit Plans*, paragraphs .11–.12.
- The AICPA issued a nonauthoritative [Technical Question and Answer \(TQA\) 7200.09](#), *Tax Accounting Considerations Under Partnership Audit Regime*, to help financial statement preparers account for the amount a partnership pays the IRS for previous underpayments of tax, interest and penalties. According to the TQA, a payment made by the partnership under the centralized partnership audit regime should be treated as a distribution from the partnership to the partners in the financial statements of the partnership. ■

New ARSC Omnibus Revised Review Report Rule Effective on Issuance

The AICPA Accounting and Review Services Committee has issued Statement on Standards for Accounting and Review Services (SSARS) No. 24, [Omnibus Statement on Standards for Accounting and Review Services—2018](#). The SSARS creates new AR-C section 100 in AICPA *Professional Standards* to provide requirements and guidance with respect to international reporting issues, and also amends AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Accounting and Review Services*, and AR-C section 90, *Review of Financial Statements*, with respect to consideration of going concern in a review of financial statements and a preclusion from an accountant referencing, in an accountant’s

review report, the review or audit report of other accountants if such accountant’s report includes an alert that restricts the use of such report.

Practitioners should be aware an [amendment to paragraph .39 of AR-C section 90](#), to make the requirements regarding the contents of the accountant’s review report consistent with the illustrative examples in exhibit C of AR-C section 90, is effective upon issuance. All other provisions of SSARS No. 24 become effective for compilations and reviews of financial statements for periods ending on or after June 15, 2019. ■

Comments Sought on Valuation Working Guide

The AICPA Financial Reporting Executive Committee has issued a [working draft](#) of the AICPA Accounting and Valuation Guide, *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*. The guide provides nonauthoritative guidance and illustrations for preparers of financial statements, independent auditors and valuation specialists regarding the accounting for and valuation of portfolio company investments held by investment companies within the

scope of FASB ASC 946 (including private equity funds, venture capital funds, hedge funds and business development companies).

The committee is seeking comments on the working draft, and will keep all comments confidential. They should be e-mailed to Yelena Mishkevich at yelena.mishkevich@aicpa-cima.com by August 15, 2018. ■

GASB Fiduciary Activities and Leases Implementation Guides in Progress

The Governmental Accounting Standards Board is in the process of developing implementation guides for its Statement No. 84, *Fiduciary Activities*, and Statement No. 87, *Leases*. The GASB has reached out to TIC for suggestions on questions and answers to be

included in the guidance, based on TIC members' experience in implementing the standards. Exposure drafts of the implementation guides are expected in December, and practitioners are encouraged to offer their feedback during the exposure period. ■

Let Us Hear from You

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

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