

Technical Issues Alert

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

TIC Discusses Developments with the ASB

What potential changes in auditing standards are on the horizon? TIC received an update in its most recent liaison with the Auditing Standards Board.

The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern. Among other topics, TIC and ASB members discussed considerations for special-purpose frameworks, as well as issues related to third-party verifications.

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA. This project in development seeks to improve the reporting model in order to enhance employee benefit plan audit quality.

Auditor Reporting. This project aims to converge with standards of the International Auditing and Assurance Standards Board while minimizing differences with Public Company Accounting Oversight Board standards. TIC supports the direction of the ASB that allows for communication of key audit matters (KAM) on a voluntary basis for nonissuers. TIC chair Mike Westervelt, who is on an ASB task force for this project, discussed concerns about the treatment of KAM when voluntarily adopted or requested by possible regulators.

Other Information. TIC received an update and offered feedback on this project, which would require an auditor to provide a paragraph on other information, in convergence with international standards.

Selected Procedures. The name of this project, which is being undertaken by ARSC, has been changed from "Specified Procedures." The ASB is offering input on aspects of the effort, which would develop a new type of engagement in which CPAs would perform procedures and report on the results of those procedures – without being required to request or obtain an assertion from the engaging party or restrict the use of the report.

Direct Engagements. TIC expressed its support for this project, in which the ASB is considering the direct engagements covered in IAASB's International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and how to address them in U.S. standards. The end result would be an attestation standard that would enable practitioners to report on an examination or review engagement under the attestation standards without having to request a written assertion from the responsible party. ■

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 4 and 5, Washington, DC (TIC liaison with PCPS Executive Committee)
- July 11 through 13, Norwalk, CT (TIC's annual liaison with the FASB, GASB and PCC)
- September 26 and 27, Coronado, CA
- November 14 and 15, Savannah, GA (TIC's annual liaison with the ARSC)
- January 17 and 18, Location TBD (TIC's annual liaison with the ASB)

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.

FASB Update with TIC

In between its meetings with the Financial Accounting Standards Board, TIC also maintains contact with FASB staff. Here's what was covered in TIC's most recent discussions with them.

Targeted Improvements on Liabilities and Equity Issues. TIC generally agreed with this ED, [Distinguishing Liabilities from Equity \(Topic 480\): i. Accounting for Certain Financial Instruments with Down Round Features and ii. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception](#). TIC urged FASB staff to consider taking on a broader project addressing issues in the current literature on liabilities and equity, which was also addressed in TIC's previous comment letter on the [FASB's Agenda Consultation Invitation to Comment](#).

Simplifying the Classification of Debt in a Classified Balance Sheet. During the call, TIC expressed concerns about the significant effect that this ED could have on many small businesses, especially construction contractors, because of covenant and financial reporting issues that could occur due to the proposed rules on refinancings. The comment deadline for the ED is May 5. TIC plans to perform some additional client outreach and will discuss in their May meeting before submitting their comment letter.

Nonemployee Share-Based Accounting Improvements. TIC generally agreed with the tentative plans for this project. An ED was expected during the first quarter of this year.

Definition of a Public Business Entity. In its discussion, TIC recommended changes, such as a flowchart, that would simplify interpretation and implementation of any guidance related to the definition of a public business entity and a nonpublic or private entity. TIC also suggested some clarification of criterion D of the current definition of a public business entity, which the FASB is looking to potentially clarify, having heard the same concerns from other constituents.

Inventory (Topic 330): Disclosure Framework—Changes to The Disclosure Requirements for Inventory. TIC received an update on this ED, which is part of a broader [FASB disclosure framework project](#). Comments are due on March 13. The FASB will hold a [public roundtable](#) on the overall disclosure framework project and one on materiality on March 17.

FASB Roundtables. TIC got feedback on the recent FASB roundtables on [Consolidation Reorganization and Targeted Improvements](#) and on the [Agenda Consultation Invitation to Comment](#). Both were attended by a TIC member at FASB's invitation, and TIC members volunteered to participate in future roundtables. ■

PEEC Proposal on Defining a Client

A Professional Ethics Executive Committee [ED](#) on the definition of a client is intended to clarify the existing meaning of the term. Among other things, it would establish that when a CPA is engaged by one entity to perform a service involving another entity, then both entities would be considered clients. If, for example, a bank (the engaging entity) asked a CPA to perform an audit of a local business (the subject entity), the bank would be the client and the business would be the attest client. As a general rule, the CPA firm would need only be independent of the attest client to perform the engagement. TIC

is planning to comment on this ED; the comment deadline is May 15. TIC plans to discuss further in its May meeting before issuing a final comment letter.

During a call with members of the AICPA Professional Ethics team, TIC also received an update on the work of a task force addressing possible guidance on entities included in state and local government financial statements as well as on some of PEEC's convergence efforts. ■

GASB News

- A Governmental Accounting Standards Board Invitation to Comment, *Financial Reporting Model Improvements – Governmental Funds*, asks which of three potential reporting models for fund financial statements—near-term, short-term and long-term—would offer the most meaningful information on the government’s short-term outlook. A comparison of the approaches in the document’s Appendix E provides a useful explanation of how each one would work for various transactions. Comments are due by March 31. A TIC member plans to attend one of the [public hearings](#) on the project.
- *Implementation Guide No. 201X-Y, Implementation Guidance Update—201X*, a GASB ED, updates existing guidance in areas that include pensions, cash flows reporting, the financial reporting entity and some disclosures. TIC submitted its [comment letter](#) on January 31, expressing some concerns about question 4.42 and the treatment of tax incremental financings (TIFs).
- A TIC member attended a roundtable related to GASB’s [note disclosures reexamination](#), which is updating guidance in this area. ■

AICPA Revenue Recognition Guide

A new [audit and accounting guide](#) presents the efforts of the AICPA’s 16 industry task forces that were created to address industry-specific accounting implementation issues associated with FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and related updates through ASU No. 2016-12. This edition includes chapters on general accounting considerations, general auditing considerations and accounting implementation issues in the aerospace and defense and asset management industries finalized to date. The guide’s accounting and auditing content will be

updated as additional implementation issues are finalized. The AICPA also plans to update its current industry audit and accounting guides accordingly as the issues are properly vetted.

The AICPA’s [Center for Plain English Accounting](#) provides its members with extensive A&A resources, including an entire report series on the revenue recognition standard. Click [here](#) for a sample of one report within the revenue recognition report series. ■

Let Us Hear From You

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

Mike Westervelt, CPA

TIC Chair

Email: Michael.Westervelt@claconnect.com

Kristy Illuzzi, CPA

TIC Staff Liaison

E-mail: Kristy.Illuzzi@aicpa-cima.com

This publication has not been approved, disapproved or otherwise acted upon by any senior technical committees of, and does not represent an official position of, the American Institute of Certified Public Accountants. It is distributed with the understanding that the contributing authors and editors, and the publisher, are not rendering legal, accounting, or other professional services in this publication. The views expressed are those of the authors and not the publisher. If legal advice or other expert assistance is required, the services of a competent professional should be sought.