



Technical Issues Alert

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

TIC Discusses Hot Topics with the ASB

Outreach to key standard setters is an important part of TIC's mission. These were some of the timely issues discussed at TIC's annual liaison with the Auditing Standards Board:

Risk assessment in practice. Areas of particular concern include relevant assertions and controls, as well as addressing the linkages between substantive procedures and risk assessment. TIC also raised the need for a better definition of significant risk and for further clarification of the assessment of control risk, including the impact of the client's internal control environment on the risk assessment. Practitioners can turn to www.aicpa.org/riskassessment for a wealth of risk assessment tools, and to the [Center for Plain English Accounting \(CPEA\)](#), which has released a two-part risk assessment report, among other resources. A TIC member attended the most recent ASB Risk Assessment Task Force meeting.

Audit implications of new accounting standards. TIC's constituents generally serve smaller, privately held business that often rely on their CPAs for help in adopting new standards, which can raise independence issues. As examples, TIC members cited challenges with recent FASB standards on revenue recognition and leases, as well as concerns related to stock-based compensation guidance. The [CPEA](#) has issued reports on audit implications of revenue recognition standards.

Update on auditing standards. TIC and the ASB also discussed new and proposed standards that included:

- [Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and](#)

[Recodification](#). The board is reviewing comment letters and considering revisions to this proposal.

- [Auditor Reporting and Other Information](#). The board offered an update on the finalization of these standards.
- [Audit Evidence](#). The ASB was in the process of finalizing an ED that would take into account emerging technologies and audit data analytics.

Additional audit developments include:

- The ASB has voted to issue a new SAS, *Omnibus Statement on Auditing Standards--2019*, that is intended to more closely align ASB guidance with the PCAOB's standards by primarily amending AU-C section 260, *Communications With Those Charged With Governance*, AU-C section 550, *Related Parties*, and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*). The SAS is expected to be issued in the first half of 2019 in conjunction with a new SAS containing a suite of standards on auditor reporting. The effective date of the finalized omnibus SAS is expected to be no earlier than for audits of financial statements for periods ending on or after December 15, 2020. A [final balloted draft](#) is available for auditors to read and consider.
- The ASB has also voted to issue a new SAS, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. The new standard addresses the auditor's responsibility to form an opinion and report on the audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the form and content of the auditor's report issued as a result of

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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 7-8, Charlotte, NC
- June 10-12, Las Vegas, NV: TIC meeting and participation in AICPA Engage Conference
- September 10-11, Norwalk, CT: FASB/PCC/GASB Liaison Meetings
- November 12-13, Durham, NC: ARSC Liaison Meeting

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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an audit of ERISA plan financial statements. The ASB expects to consider whether conforming amendments to this SAS will be necessary once the proposed standard on auditor reporting is finalized for issuance as a SAS. It is expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020. A [final balloted draft](#) is available for auditors to read and consider.

- The ASB voted to ballot as a final standard the SAS, *Auditor Reporting and Amendments—Addressing Disclosures in the Audit of Financial Statements*. This suite of auditor reporting standards:
 - Supersedes AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements*
 - Adds a new AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
 - Supersedes AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report*
 - Supersedes AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
 - Amends various other AU-C sections

This SAS addresses the auditor's responsibility to form an opinion on the financial statements and the form and content of the auditor's report issued as a result of an audit of financial statements. It also addresses the auditor's responsibilities, and the form and content of the auditor's report, when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary, and when additional communications are necessary in the auditor's report (emphasis-of-matter and other-matter paragraphs). The SAS contains a new section to address the auditor's responsibility to communicate key audit matters in the auditor's report when the auditor is engaged to do so (the communication of key audit matters is not required in this SAS).

The new SAS is expected to be issued the first half of 2019 and is effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted. ■

TIC Update with FASB Staff

TIC maintains strong connections with the staff of critical standard setters. TIC covered a variety of important considerations in its recent conversation with members of the FASB staff, including:

- Proposed Accounting Standards Update, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. TIC has endorsed efforts by the FASB and the PCC to provide private company alternatives in standards such as ASU 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill* and ASU 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*. TIC also strongly supported this proposal and felt it would provide useful information for decision making. The committee was pleased not-for-profits that are conduit debt obligors would be permitted to adopt this standard but used this as an opportunity to bring up other ongoing concerns regarding not-for-profit conduit debt obligors, including a recommendation for an extended effective date from Topics 606 and 842 and relief from some Topic 606 disclosures that don't provide decision-useful information. TIC offered to provide specific examples on additional alternatives to the FASB. TIC's comment letter can be found [here](#).
- Proposed ASU, *Leases (Topic 842): Codification Improvements for Lessors*. TIC supported the proposal, which would make changes in areas that include sales taxes and other similar taxes collected from lessees, lessor costs and recognition of variable payments for contracts with lease and nonlease components. The final guidance was expected by the end of the first quarter of this year.
- *Revenue recognition guidance review*. TIC provided feedback on uncertainty and diversity in practice in implementing revenue recognition standards. FASB staff members discussed educational efforts in this area, including a [staff paper](#) with implementation examples to help private company franchisors preparing to implement the revenue recognition standard this year. The FASB staff is also seeking further feedback on implementation issues for common interest realty associations. At FASB staff members' request, TIC agreed to reach out to former committee members who can offer the staff further insights into current implementation issues.
- *LIBOR*. The staff is identifying references in the standards to the London Interbank Offered Rate (LIBOR), the global interest rate benchmark, and considering the need for relief as LIBOR is replaced with new benchmarks over the next two years. The areas most likely to be affected are loan and debt modifications, as well as derivative and hedging accounting. GASB has a similar project on their agenda. ■

TIC Comments on PEEC Staff Augmentation Proposal

TIC questioned the need for additional guidance when firms provide staff to a client as a service. In its [comment letter](#) on a proposed AICPA Professional Ethics Executive Committee [Staff Augmentation Arrangements Interpretation](#), TIC suggested that the AICPA Code of Professional Conduct already provides sufficient guidance and safeguards in these situations and recommended that a set of targeted questions and answers could address uncertainties in practice. TIC worried that adding additional guidelines could create confusion rather than improve practice.

TIC did recommend that the document should include a definition of staff augmentation. The committee also asked for greater clarity on how the ED discusses the duration of arrangements. Comments are due by March 7.

Another PEEC proposal, [State and Local Government Client Affiliates](#), is a revision of a previous version, [Entities Included in the State and Local Government Financial Statements](#). The comment deadline is March 11, and TIC is planning to comment. ■

A Standard for Forensic Services

The AICPA has issued an ED of its first [Statement on Standards for Forensic Services](#). In its [comment letter](#), TIC asked for clarification on the practitioner's responsibilities when the client's intent changes (from an investigation to a litigation service, for example) and on handling services being performed under current consulting

standards. TIC also recommended reconsidering some of the discussion of agreed-upon procedures in light of a project related to AUPs being developed by the AICPA auditing standards team. Comments are due by February 28. ■

GASB Update

- After gathering feedback on a proposed GASB preliminary views document, [Financial Reporting Model Improvements](#), the board will use the comments in developing a potential ED aimed at enhancing the effectiveness of the financial reporting model in providing information to be used in decision making and assessing a government's accountability. TIC shared its recommendations in its [comment letter](#) on the proposal. TIC also [commented](#) on a separate ED released as part of GASB's financial reporting project, the preliminary views document [Recognition of Elements of Financial Statements](#).
- TIC generally agreed with the proposals in the GASB ED, [Implementation Guidance Update-2019](#), and did not comment on it.
- TIC plans to comment on a proposed GASB [Implementation Guide--Fiduciary Activities](#), which addresses key issues related to GASB Statement No. 14, [The Financial Reporting Entity](#), as amended. Comments are due by February 28. ■

Let Us Hear from You

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

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