

# Technical Issues Alert

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

## TIC Exchanges Ideas with the ASB

TIC's annual meeting with the Auditing Standards Board is an opportunity to share experiences and opinions and to gain more information about current and developing ASB proposals. At their most recent liaison, the two groups discussed:

- **Auditor's Reports.** The ASB has committed to converging its standards with the International Standards on Auditing released by the International Auditing and Assurance Standards Board (IAASB), while avoiding unnecessary differences with the Public Company Accounting Oversight Board (PCAOB) auditing standards. At the meeting, the groups discussed potential modifications to U.S. auditor's reports given the changes that the IAASB has made in its auditor reporting standards. However, it was emphasized that the ASB has not yet formed any conclusions about what changes will be proposed. TIC has expressed reservations about significantly expanding the volume of information to include in auditor's reports for which CPAs could be responsible.
- **The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (Redrafted): Auditing Interpretations of AU-C Section 570.** TIC expressed appreciation for the board's efforts in developing four interpretations to address early adoption of the FASB going concern standard. The four interpretations, which were released in January, are:
  - Interpretation No. 1, "Definition of Substantial Doubt About an Entity's Ability to Continue as a Going Concern"
  - Interpretation No. 2, "Definition of Reasonable Period of Time"
  - Interpretation No. 3, "Interim Financial Information"
  - Interpretation No. 4, "Consideration of Financial Statements Effects"
- **The Auditor's Responsibilities Relating to Other Information.** TIC members discussed the potential implications for U.S. standards that could result from a recently finalized IAASB standard (ISA 720 Revised), which expands the scope of what would be considered other information and of the auditor's responsibilities with respect to other information. TIC urged the ASB to carefully consider these scope issues as it works on convergence with the international standard to avoid the potential for added liability and exposure for U.S. auditors. Issuance of the final ISA was pending at press time.
- **The Auditor's Involvement with Municipal Securities Offering Documents.** An ASB task force has recommended that the ASB develop a standard similar to AU-C section 925, *Filings Under Federal Securities Statutes*, that would apply to municipal securities offerings. At the January ASB meeting, the board decided to expand the proposal to other securities offerings, yet to be defined. TIC members endorsed the need for such a standard and the auditing procedures being considered by the board and inquired about its potential scope and when and how it might apply.
- **ASB Approach to Convergence with PCAOB Audit Standards.** The ASB tries to avoid unnecessary differences between its auditing standards and those of the PCAOB. TIC gathered opinions on what kinds of "filters" the ASB might use in considering potential convergence with PCAOB standards. ■

### 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 Linda Volkert, CPA, TIC Staff Liaison, at the AICPA at (212) 596-6040 to learn about attending or receiving information on upcoming meetings.

The next TIC meetings will be held:

- May 5 and 6, Durham, NC. TIC will liaison with the Peer Review Board.
- July 16 and 17, Baltimore, MD. TIC will meet immediately after the [AICPA National Advanced Accounting and Auditing Technical Symposium](#).

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.

## TIC Confers with FASB Staff

TIC conducts regular meetings with FASB staff members to gain insights into FASB projects and offer the practitioner's perspective. The latest discussion covered:

- **Financial Instruments—Classification and Measurement.** This project in progress envisions potential changes to current GAAP in areas that include investments in equity securities, financial liabilities, the valuation allowance on a deferred tax asset, disclosures of core deposit liabilities, the fair value of financial instruments not recognized at fair value in the financial statements and hybrid financial instruments. Of particular interest is the planned exemption for private companies from the current requirement (originally issued as FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*) to disclose the fair value of financial instruments measured at amortized cost.
- **Interest—Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Cost.** TIC discussed points in its comment letter on this ED. In the letter, TIC asked that private entities be exempted from the proposal, arguing that it would not represent a simplification for them and that the proposed presentation would be less relevant to most private company lenders.
- **Employee Share-Based Payment Accounting Improvements.** The FASB's post-implementation review (PIR) found that this standard had achieved its intended goals, but that it was proving costly for some entities to apply. As a result, the board decided on modifications in numerous areas. Regarding private entities, the FASB included a new alternative for estimating the expected

term of an award and changes to the classification of awards with repurchase features, as well as a one-time election to switch from measuring liability-classified awards at fair value to measuring them at intrinsic value.

- **Clarifying the Definition of a Business.** The FASB added this project due to issues raised by the new revenue standards and comments from the PIR of the business combination standard that the existing definition was too broad. TIC suggested clarifying that the final ED addresses business combinations that are structured as asset purchases.
- **Financial Statements of Not-for-Profit Entities.** The proposal, which is still in the development stage, could result in significant changes to accounting for not-for-profits. As a result, TIC recommended that when it is issued it should have a longer, 90-120 day comment period. TIC also advocated including numerous examples and that any final document take into account potential challenges in adapting cash flows to the direct method, especially for those not-for-profits utilizing basic software systems.

Separately, in a comment letter, TIC generally agreed with a FASB Emerging Issues Task Force ED on *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. TIC did ask the board to clarify its rationale for deleting certain disclosure requirements by providing an additional paragraph in the basis for conclusions. TIC also recommended a one-year transition period (with early adoption permitted) for private companies. ■

## TIC Cites Concerns on GASB Tax Abatement Disclosures ED

TIC expressed numerous reservations in its comment letter on the GASB ED, *Tax Abatement Disclosures*, including concerns about disclosure overload in financial statements for state and local governments. TIC also noted the ED's application requirements were confusing as written, particularly when it came to identifying an abatement. The ED requires governments to disclose the amount and nature of tax abatements given to companies but does not provide governments the chance to discuss the larger economic benefits expected to be gained from the abatement. TIC noted potential

difficulties as a result if governments want to disclose information about assumed or expected economic benefits. These disclosures could be very challenging to audit if allowed. If they were not allowed, however, providing only the adverse consequences of the tax abatement agreement would be misleading. TIC recommended including information on abatements in the Statistical Section of the comprehensive annual financial report, and not in the basic financial statements. TIC also advocated that the proposed effective date be extended another year to allow for an orderly transition period. ■

## Comment on the AICPA Practice Monitoring Concept Paper

TIC encouraged CPAs and other stakeholders to respond to a request for comments on a concept paper, "*Evolving the CPA Profession's Peer Review Program for the Future*," released in December by the AICPA. The paper, which seeks input on the CPA profession's practice monitoring of the future, envisions how the existing peer review program for firms' accounting and auditing engagements could be transformed into a technology-driven, near-real time practice monitoring process. The concept's primary goal

is to increase public protection through enhanced accounting and auditing effectiveness by:

- Highlighting potential quality risk indicators and detecting engagement issues earlier;
- Reviewing all firms that perform accounting, auditing and attestation engagements; and
- Monitoring all engagements subject to review.

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As currently designed, the concept would be powered by five activities:

1. Continuous analytical evaluation of engagement performance
2. Human review when system-identified concerns are raised
3. Involvement of external monitors, when necessary
4. Periodic inspection of system integrity
5. Oversight of the system's operating effectiveness

Stakeholders are invited to provide comments and respond to questions on the [AICPA Community site](http://aicpa.org/futurepractice) ([aicpa.org/futurepractice](http://aicpa.org/futurepractice) monitoring) or to send email comments to [prsupport@aicpa.org](mailto:prsupport@aicpa.org). The comment deadline is June 15.

TIC will not comment on the paper as a committee, but TIC members discussed the paper during an educational session at a recent meeting. The discussion included consideration of the ways to further tighten and enhance the practice monitoring practice and the importance of considering the needs of firms of all sizes in the process. ■

## AICPA Releases Q&A on Effect of New Mortality Tables

As discussed in the Winter 2015 *TIC Alert*, the Society of Actuaries' Retirement Plans Experience Committee released in October 2014 its RP-2014 Mortality Tables Report, which includes new mortality tables developed for use by pension plans. [Question and Answer section 3700.01](#) (AICPA Technical Questions and Answers) has been issued to provide nonauthoritative guidance about how and when nongovernmental employee benefit plans and nongovernmental sponsoring entities should consider, for financial reporting purposes,

updated mortality tables if their financial statements have not yet been issued at the time the updated tables are published. The Q&A explains that the plans and sponsoring entities should consider the specific requirements of GAAP, which requires the use of a mortality assumption that reflects the best estimate of the plan's future experience for purposes of estimating the plan's obligation as of the current measurement date. The Q&A relates to both employer and plan pension obligations. ■

## AICPA Conflict Minerals Task Force Develops Two New Q&As, Updates CMR Depiction

Representations that a practitioner might obtain from management in an engagement to perform an independent private-sector audit (IPSA) of a conflict minerals report (CMR), and the practitioner's responsibility with respect to gaining an understanding of and testing internal controls in performing an IPSA are illustrated in new questions and answers (Q&As .14–.15) that have been developed to provide nonauthoritative guidance that addresses matters that practitioners may wish to cover in management representation letters

and practitioner responsibility with respect to internal controls. In addition, the CMR depiction, "CMR Attributes That Facilitate an IPSA," has been updated based on CMRs filed and to reflect recent SEC guidance. The "[AICPA Conflict Minerals Resources](#)" webpage includes background, previously issued Q&As .01–.13, Q&As on independence, and other useful information about the use of conflict minerals, as well as a "Useful Links" section. ■

### Let Us Hear From You

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

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