

# Technical Issues Alert

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

## TIC Comments on the ARSC PFI Proposal

TIC expressed support for a proposed separate engagement for the preparation of prospective financial information. However, in its comment letter on three proposed [SSARS](#), TIC questioned whether ARSC's proposed amendments to AR-C 70, *Preparation of Financial Statements*, were robust enough to ensure thorough compliance in preparation engagements. TIC recommended that the AICPA Guide, *Prospective Financial Information (PFI)*, should be cited in the final standard and that practitioners should be reminded that it is a necessary and authoritative resource when preparing PFI.

TIC agreed that a representation letter should not be required for a compilation engagement on PFI, since management's responsibilities are sufficiently documented in the engagement letter and the compilation report. It also supported proposed amendments to AR-C 80, *Compilation Engagements*, and AR-C 90, *Review of Financial Statements*, but asked for revisions to the proposals on reviews of specified elements, accounts or items of a financial statement and other historical financial information. ■

## Audit and Attestation Update

- The ASB completed its clarity project with the issuance of SSAE [No. 18](#), *Attestation Standards: Clarification and Recodification*. The project was undertaken to make the standards easier to read and implement. SSAE No. 18 is effective for practitioners' reports dated on or after May 1, 2017. For more information, see the Attest Clarity page on the AICPA's [web site](#).
- In January 2015, the International Auditing and Assurance Standards Board issued new and revised International Standards on Auditing (ISAs) relating to reporting on audited financial

statements. As a result, the ASB has issued [Auditing Interpretation No. 3](#), "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing," to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*. It addresses the implications for the auditor's report when reporting on an audit conducted in accordance with both generally accepted auditing standards and the new and revised auditor reporting ISAs when the auditor intends to refer to both sets of standards. ■

## TIC Discusses Proposals in Progress with FASB Staff

In addition to its regular liaison meetings with standard setters, TIC maintains frequent contact with standard setters' staff members to share information and ideas on proposed standards in development. The topics discussed during a recent call with FASB staff included:

[Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets](#). Having issued an

ED on the definition of a business in association with this project, in phase 2 the FASB is aiming to amend guidance of subtopic 610-20 on the derecognition of nonfinancial assets and the term "in-substance nonfinancial assets." The FASB also plans to revise existing guidance on partial sales of real estate, contributions to form joint ventures and transfers of nonfinancial assets that would have been

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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 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:

- July 19 and 20, Salt Lake City, UT (preceding the AICPA National Advanced Accounting and Auditing Technical Symposium)
- September 28 and 29, Norwalk, CT (TIC's annual liaison meetings with the FASB, GASB and PCC)
- November 15 and 16, San Antonio, TX (TIC's annual liaison meeting with ARSC)

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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accounted for under Topic 845 (*Nonmonetary Transactions*). This [ED](#) was issued in June with comments due August 5.

*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance.* FASB staff and TIC discussed TIC's [comment letter](#) on this [ED](#) and TIC provided practical examples to illustrate some of its comments. The FASB staff offered an update on the responses the board has received in its outreach efforts on this project.

*Technical Corrections and Improvements.* TIC clarified the FASB's intention to reinstate a definition of debt into the master glossary and offered some potential clarifications on insurance industry issues.

*EITF Issue No. 16-A: Restricted Cash.* The FASB took on this project because of diversity in practice on the classification and presentation of changes in restricted cash on the statement of cash flows. Its proposals include combining regular and restricted cash in the statement of cash flows, while offering disclosures on the nature of restrictions. In discussing the proposed transition and effective date, TIC suggested possible simultaneous issuance of Issues No. 16-A and No. 15-F (*Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*), so that organizations and practitioners can address all changes to the cash flow statements at once. To ensure optimal understanding and implementation, TIC also noted the value of allowing a full CPE cycle before the effective date.

*EITF Issue 15-F: Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.* The FASB staff provided an update on this project and thanked TIC for its comment letter and feedback.

*Simplifying the Accounting for Goodwill Impairment.* This project addresses whether the private company alternative for subsequently measuring goodwill should be considered for other entities, including public business entities and not-for-profits. The [ED](#) was issued in May with a July 11 comment deadline. Among other matters, the board proposes a one-step impairment test and a new disclosure on the existence of reporting units with zero or negative carrying amounts and the amount of goodwill allocated to them.

*Accounting for Financial Instruments—Hedging.* FASB staff offered an update on possible proposals for hedge accounting documentation for private companies. The board is interested in

hearing about what types of transactions private companies would seek relief for and what type of relief. The ED, which is expected to be released this summer, is likely to include a question for respondents on this issue.

*Nonemployee Share-based Payments.* The FASB has decided to expand the scope of Topic 718 (*Compensation—Stock Compensation*) to include all share-based payment transactions for acquiring goods and services from nonemployees.

*Consolidation: Interests Held Through Related Parties that Are Under Common Control.* FASB staff explained that this project is designed to address stakeholders' concerns about some amendments to Update 2015-02, *Amendments to the Consolidation Analysis*. The ED was issued on June 23 with comments due July 25.

*PCC issue 15-02: Applying VIE Guidance to Entities Under Common Control.* TIC and the FASB staff reviewed the history of this project and TIC offered comments and suggestions.

In other news related to FASB projects:

- The FASB issued [Update 2016-12--Revenue from Contracts with Customers \(Topic 606\): Narrow-Scope Improvements and Practical Expedients](#). It is one result of the board's efforts to address challenges identified in applying the revenue recognition standard.
- [Update 2016-11--Revenue Recognition \(Topic 605\) and Derivatives and Hedging \(Topic 815\): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting \(SEC Update\)](#).
- [Update 2016-10—Revenue from Contracts With Customers \(Topic 606\): Identifying Performance Obligations And Licensing](#). Another Update resulting from the board's efforts to address challenges identified in applying the revenue recognition standard.
- [Update 2016-09—Compensation—Stock Compensation \(Topic 718\): Improvements to Employee Share-Based Payment Accounting](#), aims to simplify aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of certain awards as equity or liabilities and classification on the cash flow statement. ■

## TIC Comments on EDs Related to Retirement Benefits

TIC recommended giving private entities, including not-for-profits, an exemption from a FASB [proposal](#) on *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. If the information called for in the proposal would be useful to private entity stakeholders, TIC called for a disclosure option that would allow private entities to avoid changing the presentation of net

periodic benefit costs in the income statement. If the board chooses not to provide an exemption or alternative for private entities, TIC suggested that the final standard should include guidance on the proper presentation of the cash and noncash financial elements of pension and other postretirement benefit costs within the statement of cash flows. TIC also asked that future proposals offer more information on the staff's outreach efforts, along with details on

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stakeholder groups that express concerns about existing financial accounting and reporting standards. TIC believes it is important for constituents to know what kind of feedback it has received on its projects, particularly from private company financial statement users.

On another front, TIC believed the additional disclosures proposed in a FASB [ED](#) on *Compensation—Retirement Benefits—Defined Benefit Plans General (Subtopic 715 20): Changes to the Disclosure Requirements for Defined Benefit Plans* would be helpful to financial statement users without being costly or difficult for private entities

to implement. TIC also agreed with the proposed elimination of some disclosures that have not aided in stakeholders' decision making. In particular, TIC was pleased that private entities will no longer have to disclose the reconciliation of opening and closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. TIC recommended that, in considering a transition period for the new guidance, the FASB should consider the time necessary to educate actuaries on the new standard and to make necessary system changes to reflect updated disclosures in their report templates. TIC called for an effective date for private entities that is one year after the date for public companies. ■

## Peer Review Quality Tips from the *Reviewer Alert*

This new feature for the *TIC Alert* is designed to (1) track the status of Peer Review Board exposure drafts; and (2) alert all practitioners to articles from Peer Review's [Reviewer Alert](#) that offer regular insights into more effectively performing your peer reviews and best practices for enhancing audit quality.

- The June 2016 issue includes changes incorporated into the *Peer Review Program Manual (PRPM)* approved at the Peer Review Board meeting on May 3, 2016; the recently approved Quality Control (QC) checklists which have been published on the peer review website, early implementation allowed; QC tools and resources provided by the AICPA; the issuance of the Peer Review Board exposure draft, *Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program*; and articles that spotlight points on engagements subject to *Government Auditing Standards* and the Single Audit Act.

- The May 2016 issue highlights the changes finalized from the Peer Review Board exposure draft, *Improving Transparency and Effectiveness of Peer Review*, as well as other changes to the PRPM. Other articles in this issue include a reminder about audit and attest engagements that may be subject to SEC independence rules due to regulatory requirements, a summary of recent PCAOB staff inspection briefs that could have applicability to nonissuer audits, and an update on the status of Quality Control Materials reports and their acceptance.
- The April 2016 issue includes articles on the continuing availability of the PRPM, including the Team/Review Captain Packages, on the peer review website; tips on lessons learned from enhanced oversight on audit documentation; and news on communications that firms can expect to receive from the Department of Labor on enhanced reviews for ERISA audits. ■

## Free Resources Focus on Quality

The AICPA [Enhancing Audit Quality](#) initiative was designed to help practitioners maintain and improve audit excellence. Practitioners now have access to a free tool to support their quality efforts: an e-version of the Practice Aid *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*. CPAs can use the practice aid to better understand and apply Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control (Redrafted)*, which is included as an appendix in the publication. The practice aid outlines quality control

policies and procedures that can be used by four hypothetical firms to establish and maintain a quality control system: a multi-office firm; a single-office firm; a sole practitioner; and a firm organized in an alternative practice structure.

For additional practical tools, turn to the [Invigorate the Focus on Quality Toolkit](#), a PCPS resource that helps CPAs address issues such as tone at the top, client evaluation, proposal and profitability, quality and peer review and firm competence. ■

## TIC Comments Included in IAASB Audit Quality ITC

TIC called for more guidance aimed at auditors in small and medium practices, when it contributed comment points to the [ASB's comment letter](#) on an [IAASB invitation to comment](#) on *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. TIC also offered extensive insights related to group audits, in particular in relation

to communication between the group engagement team and the component auditors; component materiality and other materiality issues in group audits; and group audits of public sector entities. TIC recommended, as well, that the guidance be updated regularly to address changes in technology and their impact on audits and audit quality. ■

## TIC Weighs in on PEEC Omnibus ED

An [omnibus proposal](#) from PEEC includes proposed interpretations on the transfer of files and return of client records when a member sells, transfers or discontinues a practice; disclosing client information in connection with a review or acquisition of a practice; and disclosure of a commission and referral fee.

In its comment letter, TIC approved of the proposals but called for additional guidance regarding giving clients notice when a practice is transferred due to a practitioner's death or disability,

since notification may be especially complicated in the case of a sole practitioner. TIC also recommended a delayed effective date for the interpretation on the disclosure of commissions and referral fees, since it may take one CPE cycle for members to learn about the new requirement to provide written disclosure of commission and referral fee arrangements in states that currently permit verbal disclosure. Some states may also need time to update their administrative code to reflect the written requirement. ■

## GASB Update

- GASB has issued [Statement No. 81, Irrevocable Split-Interest Agreements](#), to provide recognition and measurement guidance for situations where a state or local government is a beneficiary of such agreements.
- The GASB has created a consultative group to help with research in its examination of the going concern provisions in [Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards](#). The GASB uses consultative groups as sounding boards that offer suggestions and feedback on

its research. For more information, see the May 2016 [GASB Report](#).

- The latest issue of the [GASB Outlook](#) includes articles on:
  - GASB's hosting of an inaugural event bringing together public sector standard setters from around the world.
  - An update on the GASB technical plan.
  - GASB's reexamination of the financial reporting model.
  - Information for financial statement users. ■

## Updated State and Local Government Special Purpose Frameworks Practice Aid Issued

Auditors of state and local governments (SLGs) that prepare financial statements using a special purpose framework (e.g., cash basis, modified cash basis, regulatory, etc.) should be aware that the AICPA has updated its [Practice Aid, Applying Special Purpose Frameworks in State and Local Governmental Financial Statements](#). This practice aid provides accounting and auditing professionals with guidelines and best practices to promote consistency and for resolving the difficult questions of special purpose framework application by SLGs.

The practice aid has been updated to clarify and provide additional guidance and practice points in areas such as the treatment of defined benefit pension plan and other post-employment benefit plan costs. It also features additional practice points on accounting and reporting issues related to the timing of payroll payments and the impact of the use of special purpose frameworks on an entity's single audit low risk auditee status. ■

### Let Us Hear From You

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

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