AICPA® PCPS
Private Companies Practice Section

Winter 2016

Technical Issues Alert

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

TIC Tackles Issues with the ASB

In line with its mission, TIC meets regularly with standard setters to monitor guidance in progress and comment on the potential impact that planned standards may have on nonissuers and their CPAs. At its most recent meeting with the Auditing Standards Board, TIC discussed these issues:

Direct engagements. The International Auditing and Assurance Standards Board's International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, covers assurance engagements, including attestation and direct engagements. In an attest engagement, a party other than the practitioner measures or evaluates the underlying subject matter against applicable criteria, while in a direct engagement, a practitioner performs the measurements/evaluation. In both engagements, independence is required and the practitioner issues an assurance report.

As the ASB considers how to address direct engagements in its own standards, TIC members discussed some of the questions or challenges that CPAs and their nonissuer clients might have in working with these engagements, which are seen by some as bridging the gap between a consulting engagement and an attestation engagement. In particular, TIC noted the value of practical examples to help users understand the concept of direct engagements and apply any planned guidance.

Materiality. The FASB is considering comments on two proposals on materiality. One is a change to the Conceptual Framework that addresses the concept of materiality and the other is a proposed FASB ASU, *Notes to the Financial Statements (Topic 235), Assessing Whether Disclosures Are Material*. TIC suggested that the ASB might consider an education or awareness campaign to ensure that CPAs understand that the auditing standards haven't changed in anticipation of the FASB guidance. TIC noted that this might also be a good opportunity to create new implementation guidance addressing the qualitative aspects of materiality. Since the liaison, the FASB has received some negative feedback on these proposals, so the FASB's next steps are uncertain.

Group audits. As more firms become involved in international engagements, TIC pointed out that there can be confusion about requirements for component auditors on which standards to follow when, for example, there is a foreign parent and a U.S. subsidiary. Questions may arise about what reporting is involved, whether an engagement letter has been written to comply with all the potential standards involved, and even about what rules apply when the group and component auditors are members of the same network. TIC noted that further guidance on this topic could help prevent diversity in practice.

Going concern issues. TIC expressed appreciation for the guidance in four auditing interpretations issued by the ASB on this topic. TIC and ASB members discussed the treatment of substantial doubt considerations in the FASB's ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ■

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, Nashville, TN
- 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)

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.

Audit and Ethics Update

- The ASB has issued SAS No. 131, *Amendment to Statement on Auditing Standards No. 122 Section 700,* Forming an Opinion and Reporting on Financial Statements (AICPA, *Professional Standards*, AU-C sec. 700), to clarify the format of the auditor's report that should be issued when the auditor conducts an audit in accordance with PCAOB standards, but the audit is ***not*** under the jurisdiction of the PCAOB. An audit is under the PCAOB's jurisdiction if, to perform that audit, the auditor is required to be registered with, and subject to inspection by, the PCAOB. The amendments are effective for audits of financial statements for periods ending on or after June 15, 2016; however, early application is permitted.

- The ASB's Service Organizations Task Force has developed an illustrative service auditor's report for use when a service auditor is reporting on a description of a service organization's system and the suitability of the design and operating effectiveness of controls (type 2 report) under both AT section 801, *Reporting on Controls at a Service Organization* (AICPA, *Professional Standards*), and International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization.* The illustrative report is intended for reports dated on or after December 15, 2015.

- A PEEC Omnibus ED proposes new interpretations in areas that include the transfer of files and return of client records in a sale, transfer or discontinuance of a member's practice; disclosing client information in connection with a review or acquisition of the member's practice; and disclosure of a commission and referral fee. Comments are due by May 16.

- The International Auditing and Assurance Standards Board has issued an invitation to comment on *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control, and Group Audits*. The ITC highlights the board's discussions on these topics and identifies possible standard-setting activities the IAASB could take to enhance audit quality. The IAASB also has released a companion document, an *Overview of the ITC.* ■

Important Fair Value Disclosure Change Relating to Financial Instruments of Nonpublic Entities

The FASB recently issued the long-awaited ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Rather than detail its many provisions here, we are limiting our discussion to an important simplification that is effective right now for nonpublic entities that have been subject to the fair value disclosures required by paragraphs 825-10-50-10 through 50-19 of the *Accounting Standards Codification*™ (i.e., the old FASB Statement No. 107 disclosures). Entities that don't meet the definition of a public business entity (such as not-for-profit organizations, employee benefit plans and most other private entities) no longer need to disclose the fair value of financial instruments carried at amortized cost. ASU 2016-01 eliminates this requirement and permits early adoption of this provision so that entities that are not public business entities (as defined) may take advantage of the exemption immediately. Certain non-SEC registrants may be considered public business entities and should review the definition to ensure they qualify for the exemption.

Here are the effective dates for all other provisions of the ASU. For public entities, the amendments in the update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, they are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. ■

2015 IFRS for SMEs Now Available

Copies of this bound volume are £35 each (before discounts), plus shipping. This official printed edition incorporates and is updated by the 2015 Amendments to the IFRS for SMEs (effective for annual reporting periods beginning on or after 1 January 2017, with early application permitted). The complete IFRS for SMEs is presented in two volumes, Part A containing the IFRS for SMEs Standard and a Derivation Table and Part B containing the Basis for Conclusions and Illustrative Financial Statements. An electronic download is also available free of charge to registered users at www.ifrs.org/IFRS-for-SMEs/Pages/IFRS-for-SMEs-and-related-material.aspx. ■

GASB Update

- The GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, to address issues that were not covered in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* related to certain types of multiple-employer plans that involve both governments and non-governmental entities. It is effective for reporting periods beginning after December 15, 2015, but earlier application is encouraged.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that would qualify an external investment pool to elect to measure all of its investments at amortized cost for financial reporting purposes. The statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk and shadow pricing, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

- The GASB ED, *Certain Asset Retirement Obligations*, would establish how to determine the timing and pattern of recognition for liabilities related to asset retirement obligations (AROs) and associated deferred outflows of resources. An ARO is "a legally enforceable liability associated with the retirement of a tangible capital asset, such as the decommissioning of a nuclear reactor," the GASB notes. The comment deadline is March 31.

- A GASB ED on *Fiduciary Activities* would establish what constitutes fiduciary activities for financial reporting purposes, the recognition of liabilities to beneficiaries, and the types of funds in which fiduciary activities should be reported. It would apply to all state and local governments. The comment deadline is March 31.

- A GASB ED on *Pension Issues* amends GASB Statements No. 67, No. 68, and No. 73 to address practice issues identified during the implementation of those standards. ■

Let Us Hear From You
If you have questions, local firm advocacy issues or suggestions for TIC, contact:

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