Accounting and Auditing Supplement No. 2–2019
Introduction

This update includes the more significant accounting and auditing developments from April 1, 2019, through June 30, 2019. Included in this update are standard setting and project activities of the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Professional Ethics Executive Committee (PEEC), FASB, PCAOB, and the SEC.

These developments, although believed to be complete at the date at which they were prepared for this course material, may not cover all areas within accounting and auditing relevant to all users of this material.

This update may refer you to other sources of information, in which case you are strongly encouraged to review that information if relevant to your needs.
Audit and accounting final and proposed standards

Final standards, interpretations, and regulations

AICPA

ASB

Statement on Auditing Standards (SAS)

SAS no. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements

Issue date
May 2019

Background

SAS No. 134 significantly changes the form and content of the auditor’s report, which accompanies an audited set of financial statements. The SAS also addresses the auditor’s responsibility to form an opinion on the financial statements.

The ASB issued SAS Nos. 134 and 135 (discussed next) to enhance the communicative value of the auditor’s report and to make generally accepted auditing standards more consistent with standards issued by the International Auditing and Assurance Standards Board (IAASB) and the PCAOB.

Main provisions / significant changes

SAS No. 134 is a suite of auditor reporting standards that includes a new AU-C section 701, Communicating Key Audit Matters in the Independent Auditor’s Report, and replaces the following AU-C sections in the AICPA Professional Standards:

- Section 700, Forming an Opinion and Reporting on Financial Statements
- Section 705, Modifications to the Opinion in the Independent Auditor’s Report
- Section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report

SAS No. 134 also amends the following other AU-C sections:

- Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards
- Section 210, Terms of Engagement
- Section 220, Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards
The SAS also amends SAS No. 132, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern.

The SAS is designed to benefit users of audited financial statements in the United States by placing the auditor’s opinion at the front of the report for added visibility and transparency into the basis for the auditor’s opinion and the responsibilities of both entity management and auditors. The SAS also amends various other AU-C sections, 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. Finally, it 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).

Effective date

The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

ASB

SAS No. 135, Omnibus Statement on Auditing Standards — 2019

Issue date
May 2019

Background

The ASB issued an omnibus SAS that is intended to more closely align its guidance with the PCAOB’s standards by 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 in AICPA Professional Standards.
Main provisions / significant changes

SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended:

- Section 210, Terms of Engagement
- Section 240, Consideration of Fraud in a Financial Statement Audit
- Section 260, The Auditor’s Communication with Those Charged with Governance
- Section 265, Communicating Internal Control Deficiencies Identified in an Audit
- Section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- Section 330, Performing Audit Procedures in Responses to Assessed Risks and Evaluating the Audit Evidence Obtained
- Section 510, Opening Balances — Initial Audit Engagements, Including Reaudit Engagements
- Section 550, Related Parties
- Section 560, Subsequent Events and Subsequently Discovered Facts; Section 580, Written Representations
- Section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)
- Section 930, Interim Financial Information (AICPA, Professional Standards)

Effective date

The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

ARSC

The ARSC did not issue any new or revised standards or interpretations in this period.

PEEC

AICPA Professional Ethics Division: Information System Services

Issue date
June 2019

Background

The PEEC adopted a revised interpretation, "Information System Services," formerly "Information Systems Design, Implementation, or Integration" (ET sec. 1.295.145) under the "Independence Rule" (ET sec. 1.200.001).

The AICPA will add the revised interpretation to the AICPA Code of Professional Conduct (the Code) with the June 2019 update.
Main provisions / significant changes

The revised interpretation addresses the following nonattest services involving an attest client’s information system or network:

- Design and development
- Implementation (which includes installation, customization, integration, interfacing, configuration, and data translation)
- System and network maintenance, support, and monitoring

The revision incorporates several defined terms, most notably “financial information system,” proper application of which is key to avoiding self-review threats that impair independence. However, the interpretation also applies to attest services in which the subject matter is not a client’s financial statements.

Overall, the revised interpretation provides more explicit guidance on information system services, especially the types of implementation and system and network maintenance services that impair independence.

Effective date

The revised interpretation is effective January 1, 2021, and early implementation is allowed.

AICPA Professional Ethics Division: State and Local Government Client Affiliates

Issue date
June 2019

Background


The interpretation helps members identify the entities related to a state or local government (SLG) (such as component units or funds) that are “affiliates” of the SLG for independence purposes. Affiliates of SLG financial statement attest clients are subject to independence provisions in the AICPA Code except for nonattest services the member (or member’s firm) provides to the affiliate if the services do not create a self-review threat. Independence applies even if the member (or member’s firm) does not provide attest services to the affiliate.

Given the unique structure and relationship of SLGs and the entities associated with them, ET sec. 1.224.020 takes a very different approach than ET sec. 1.224.010, “Client Affiliates,” which applies more broadly to entities such as corporations, partnerships, employee benefit plans, and trusts.

Effective date

The revised interpretation is effective for years beginning after December 15, 2020.
FASB

Accounting Standards Updates (ASUs)

ASU No. 2019-04

Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments

Issue date
April 2019

Background

Since 2016, FASB has issued the following updates related to financial instruments:

- ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

After the issuance of each update, FASB assists stakeholders in implementing the amendments as incorporated into the FASB Accounting Standards Codification® (ASC). Through this assistance, FASB has identified certain areas that need clarification and correction.

FASB has an ongoing project on its agenda for improving the FASB ASC or correcting its unintended application. Like the amendments in this update, the items addressed in that project generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. However, FASB decided to issue a separate update for improvements to updates 2016-01, 2016-13, and 2017-12 to increase stakeholders’ awareness of the amendments and to expedite improvements to the FASB ASC.

Main provisions / significant changes

The amendments in this update should make the FASB ASC easier to understand and apply by eliminating inconsistencies and clarifying, correcting errors in, and improving the FASB ASC in the following areas:

- Accrued interest
- Transfers between classifications or categories for loans and debt securities
- Recoveries
- Conforming amendment to subtopic 310-40
- Conforming amendment to subtopic 323-10
- Clarification that reinsurance recoverables are within the scope of subtopic 326-20
- Projections of interest rate environments for variable-rate financial instruments
- Consideration of prepayments in determining the effective interest rate
Consideration of estimated costs to sell when foreclosure is probable
Partial-term fair value hedges of interest rate risk
Amortization of fair value hedge basis adjustments
Disclosure of fair value hedge basis adjustments
Consideration of the hedged contractually specified interest rate under the hypothetical derivative method
Scope for not-for-profit (NFP) entities
Hedge accounting provisions applicable to certain private companies and NFPs
Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments
Update 2017-12 transition guidance
Scope clarifications for subtopics 320-10 and 321-10
Held-to-maturity debt securities fair value disclosures
Applicability of topic 820 to the measurement alternative
Remeasurement of equity securities at historical exchange rates
Vintage disclosures — line-of-credit arrangements converted to term loans
Contractual extensions and renewals

Effective date
Various, depending on which ASU is being clarified and improved upon and whether the company has adopted the amendments in the respective ASU.

ASU No. 2019-05
Financial Instruments — Credit Losses — Targeted transition relief
(Topic 326)

Issue date
May 2019

Background
In June 2016, FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis. The amendments in update 2016-13 added topic 326, “Financial Instruments — Credit Losses,” and made several consequential amendments to the FASB ASC. Update 2016-13 also modified the accounting for available-for-sale debt securities in accordance with Subtopic 326-30, “Financial Instruments — Credit Losses — Available-for-Sale Debt Securities.”

Since the issuance of update 2016-13, FASB has assisted stakeholders in implementing the amendments formally through the activities of the Credit Losses Transition Resource Group (TRG) and informally through other implementation assistance activities. Through this assistance, FASB has identified certain areas that require clarification and improvement. The amendments in this update provide targeted transition relief that is optional for all reporting entities within the scope of topic 326.
Main provisions / significant changes

The amendments in this update provide entities that have certain instruments within the scope of subtopic 326-20, “Financial Instruments — Credit Losses — Measured at Amortized Cost,” with an option to irrevocably elect the fair value option in subtopic 825-10, “Financial Instruments — Overall.” Entities would apply the fair value option, which does not apply to held-to-maturity debt securities, on an instrument-by-instrument basis for eligible instruments, upon adoption of topic 326. An entity that elects the fair value option should subsequently apply the guidance in subtopics 820-10, “Fair Value Measurement — Overall,” and 825-10.

Effective date

For entities that have not yet adopted the amendments in update 2016-13, the effective date and transition methodology for the amendments in this update are the same as in update 2016-13.

For entities that have adopted the amendments in update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after the issuance of this update if an entity has adopted the amendments in update 2016-13.

The amendments in this update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in update 2016-13.

ASU No. 2019-06

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

Issue date

May 2019

Background

In 2014, FASB issued ASU No. 2014-02, Intangibles — Goodwill and Other (Topic 350): Accounting for Goodwill, and ASU No. 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (consensuses of the Private Company Council [PCC]), which simplify the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets in a business combination. When FASB issued both updates, it acknowledged that the issues addressed were not limited to private companies; they also pertained to NFPs and public business entities. Therefore, FASB added to its agenda projects addressing the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets for those other entity types.

FASB received feedback from NFP stakeholders that questioned the relevance of an impairment-only approach to goodwill as well as input that the benefits of the current accounting for goodwill and identifiable intangible assets acquired in an acquisition by an NFP do not justify the related costs. By providing accounting alternatives, the amendments in this update will reduce for preparers the cost and complexity associated with the subsequent accounting for goodwill and the measurement of certain identifiable intangible assets acquired without significantly diminishing decision-useful information for
users of NFP financial statements. The objective of the amendments is to extend the scope of the accounting alternatives provided in updates 2014-02 and 2014-18 to NFPs. FASB has another project on its agenda to examine the subsequent accounting for goodwill and the accounting for identifiable intangible assets. FASB may decide that any amendments developed as part of that project also should apply to entities within the scope of this update. Thus, it is possible that entities electing these alternatives could be subject to future changes to the subsequent accounting for goodwill as a result of that project.

The amendments in this update apply to all NFPs as defined in the master glossary of the FASB ASC. An NFP within the scope of the amendments in this update that elects to apply the accounting alternative in topic 350, “Intangibles—Goodwill and Other,” would be subject to all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements of the accounting alternative. An NFP that elects to apply the accounting alternative in topic 805, “Business Combinations,” is subject to all of the recognition requirements of the accounting alternative. An NFP should apply the accounting alternative in topic 805, if elected, to all transactions within the scope, defined as follows, that are entered into after the effective date.

The amendments in this update related to the accounting alternative in topic 805 apply when an NFP within the scope is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following in-scope transactions:

- Applying the acquisition method under topic 805 (or subtopic 958-805, "Not-for-Profit Entities — Business Combinations")
- Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method under topic 323, "Investments — Equity Method and Joint Ventures"
- Adopting fresh-start reporting under topic 852, "Reorganizations"

Main provisions / significant changes

The amendments in this update extend the private company alternatives from topic 350 (update 2014-02) and topic 805 (update 2014-18) to NFPs.

Under the amendments to the accounting alternative in topic 350, an NFP should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the NFP demonstrates that a shorter useful life is more appropriate. An NFP that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.

An NFP is required to test goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity (or a reporting unit) may be below its carrying amount.

Under the amendments to the accounting alternative in topic 805, for transactions occurring after adoption of the alternative, an NFP should subsume into goodwill and amortize customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements acquired.

An NFP that elects the accounting alternative in topic 805 is required to adopt the alternative in topic 350 to amortize goodwill. However, an entity that elects the accounting alternative in topic 350 is not required to adopt the accounting alternative in topic 805.
Effective date

The amendments are effective upon issuance of this update. Consistent with the existing private company alternatives for goodwill and certain intangible assets, NFPs electing to adopt these alternatives do not have to demonstrate preferability and should follow the transition guidance the first time they elect to adopt the alternatives. NFPs have the same open-ended effective date and unconditional one-time election that private companies have. The transition methods for the guidance on each accounting alternative are the same for NFPs as the previous transition methods for private companies. If elected, an NFP should apply the accounting alternative in

- topic 350, prospectively for all existing goodwill and for all new goodwill generated in acquisitions by NFPs.
- topic 805, prospectively upon the occurrence of the first transaction within the scope of the alternative.

SEC

Code of Federal Regulations (CFR), Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships, Title 17, Section 210

Issue date
June 18, 2019

Background

On June 20, 2016, the SEC Division of Investment Management issued a “no action” letter (NAL) to Fidelity Management & Research Co. et al. (Fidelity) on an independence issue involving loans between certain shareholders of Fidelity affiliates (namely, record or beneficial owners of more than 10% of a Fidelity affiliate’s equity securities) and its auditor (the “Loan Provision”). Responding to Fidelity’s request, the NAL indicated that the SEC would not take enforcement action against the company and its affiliates for the auditor’s noncompliance with their rule, which prohibited the auditor from having a loan with a greater than 10% shareholder of Fidelity or its affiliated entities. The SEC staff agreed to not pursue action against the company, subject to the conditions noted in the letter, for a period of 18 months. The NAL noted that the Division of Investment Management consulted with the SEC’s Office of the Chief Accountant and Division of Corporate Finance in developing its analysis. On September 22, 2017, the SEC extended its no-action relief and prior to that, the SEC added the Loan Provision to its regulatory agenda.

In May 2018, the SEC proposed changes to the Loan Provision, which would narrow the rule’s scope with respect to owners of more than 10% of an audit client’s equity securities to those who are beneficial owners, known through reasonable inquiry, where the owner has significant influence over the client. In addition, when applying the rule to an audit client that is a fund within an investment company complex (ICC), the term audit client excludes any other fund that otherwise would be considered an affiliate of the audit client.

The SEC received 31 comment letters, mostly in support of the SEC’s proposed changes to the Loan Provision.

On June 18, 2019, the SEC issued a final rule, “Auditor Independence with Respect to Certain Loans or Debtor-Creditor Relationships,” which amends the SEC’s independence rules when an auditor has a
lending relationship with certain shareholders of an audit client (including the client’s affiliates) during the audit or professional engagement period.

Major provisions / significant changes

The final amendments to the Loan Provision were generally consistent with the proposed revisions, except that the SEC clarified the definitions of “fund” and “audit client” for purposes of this rule.

The final rule expands the definition of “fund” for purposes of the Loan Provision to include commodity pools and also excludes foreign funds from the definition of “audit client.” According to the release, a foreign fund that is part of an ICC would be covered by the exclusion for funds other than the fund under audit.

The final rules release states that the Loan Provision applies broadly to audits of all types of clients and was particularly challenging to apply in the mutual fund industry. However, the SEC noted that non-fund issuers have also faced challenges in applying the Loan Provision and therefore, the final amendments apply to entities beyond the mutual fund industry, including operating companies and registered broker-dealers.

Effective date

The amendments become effective October 3, 2019.

PCAOB

PCAOB Staff Guidance: Rule 3526(b) Communications with Audit Committees Concerning Independence

Issue date
May 2019

Background

The PCAOB released staff guidance, Rule 3526(b) Communications with Audit Committees Concerning Independence, which provides background and direction to auditors on applying Rule 3526 when the firm has identified one or more violations of auditor independence rules. The staff’s guidance, in the form of Staff Q&As, clarifies rules 3526 and 3520, Auditor Independence, and is based on inquiries the PCAOB received from firms.

In an overview of the new guidance, the staff noted, “The Board adopted Rule 3526 in 2008. In adopting the rule, the Board stated that the purpose of Rule 3526(b) is for a Firm to ‘provide the audit committee with sufficient information to understand how a particular relationship might affect independence and to foster a robust discussion between the firm and the audit committee.’”

The guidance indicates that PCAOB inspectors have noted various situations in which a firm that has violated independence has affirmed its independence; that is, typically
the firm analyzed the facts and circumstances related to the violation and concluded the firm was still capable of exercising objective and impartial judgment in performing the audit.

- the violation had been or was in the process of being resolved.
- the firm communicated the matter and its analysis to the audit committee.
- the audit committee evaluated the information presented and agreed with the firm’s conclusion separately.
- the audit committee and the firm agreed to continue the audit engagement.

Main provisions / significant revisions

Staff Q&A No. 1 clarifies that firms should follow a similar process as previously outlined, but should also

- evaluate violations in the aggregate in a separate analysis that is communicated to the audit committee;
- document the substance of its discussion(s) with the audit committee; and
- affirm in writing to the audit committee that, except for the violation(s) expressly identified, the firm would be independent in compliance with Rule 3520.

The last item represents a departure from the way firms typically affirm independence under this scenario, according to the PCAOB.

The guidance also clarifies that following the process outlined in Q&A No. 1 does not "cure" the violation of Rule 3520; it only addresses the communication of the violation to the audit committee.

Q&A No. 4 indicates that a violation addressed with the audit committee in a prior year need not be included in a subsequent year’s communication with the committee if no new facts have come to light that would change the resolution of the prior violation. In those instances, the firm may affirm independence in the current year, if as of the date of the communication, the firm is independent in accordance with Rule 3520. (This presumes the violation was fully resolved and no new instances have occurred in the present period.)

Lastly, Q&A No. 5 clarifies that following the process outlined in Q&A No. 1 allows the firm to include in its audit report the title, "Report of Independent Registered Public Accounting Firm" as it does not constitute a specific assertion about compliance with Rule 3520.

Effective date

This is not explicitly stated in the guidance, but it appears that auditors should apply the guidance for all applicable PCAOB Rule 3526(b) communications occurring on or after May 31, 2019.

PCAOB Staff Guidance: Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs

Issue date
May 2019
Background

This PCAOB staff guidance focuses on questions that may arise when the auditor is communicating critical audit matters (CAMs) under AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

Main provisions / significant revisions

Under AS 3101, for each CAM communicated in the auditor’s report, the auditor is required to

- identify the CAM;
- describe the principal considerations that led the auditor to determine that the matter is a CAM;
- describe how the CAM was addressed in the audit; and
- refer to the relevant financial statement accounts or disclosures that relate to the CAM.

Questions addressed in the guidance are as follows:

- How should auditors describe the principal considerations that led them to determine a matter is a CAM?
- If describing audit procedures as part of communicating how a CAM was addressed in the audit, what considerations apply?
- If describing the outcome of audit procedures or key observations with respect to a matter, what considerations apply?
- How do CAM communications relate to company disclosures and other information the company has made publicly available?
- If a CAM is recurring, how should auditors apply the CAM communication requirements?
- Is there a specific order in which CAMs should appear in the CAM section of the auditor’s report?
- How do the CAM requirements apply to a dual-dated auditor’s report?

AS 3101 includes four elements that the auditor can use, individually or in combination, to describe how the CAM was addressed in the audit: (1) the auditor’s response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter.

The description of how the CAM was addressed in the audit provides investors and other financial statement users with additional information about the audit. The intent is to provide a summary that is useful to investors, and not to detail every aspect of the auditor’s response or approach.

Language that could be viewed as disclaiming, qualifying, restricting, or minimizing the auditor’s responsibility for the CAMs or the auditor’s opinion on the financial statements is not appropriate and may not be used. The language used to communicate a CAM should not imply that the auditor is providing a separate opinion on the CAM or on the accounts or disclosures to which the CAM relates.

The auditor is not expected to provide information about the company that has not been made publicly available by the company unless such information is necessary to describe the principal considerations that led the auditor to determine that a matter is a CAM or how the matter was addressed in the audit.
Effective date

AS 3101 will be effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

Proposed standards, interpretations, and regulations

AICPA

ASB

Proposed SAS – Amendments to the Description of the Concept of Materiality

Proposed Statement on Standards for Attestation Engagement (SSAE) – Amendments to the Description of the Concept of Materiality

Issue date
June 5, 2019

Comment deadline
August 5, 2019

Background

The ASB’s current definition of materiality is consistent with the definition of materiality used by the International Accounting Standards Board (IASB) and the IAASB. The ASB is proposing amendments to align its materiality concepts with the definition of materiality used by the U.S. judicial system, the auditing standards of the PCAOB, the SEC, and FASB (hereinafter referred to as “U.S. judicial system and other U.S. standard setters and regulators”).

The ASB believes it is in the public interest to eliminate inconsistencies between the definition of materiality in AICPA Professional Standards and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators.

Proposed changes

The primary difference between the definitions held by the U.S. judicial system and other U.S. standard setters and regulators and the definitions currently held by the ASB, IASB, and IAASB relate to whether a misstatement "would influence the judgment of a reasonable investor" versus "could reasonably be expected to influence the judgment of a reasonable person." The U.S. judicial system and other U.S. standard setters and regulators define an omission or misstatement as material if there is a substantial likelihood that a reasonable person would consider it important. The ASB, IASB, and IAASB definitions state that misstatements, including omissions, in the financial statements are material if they could reasonably be expected to influence the economic decisions of financial statement users.
The ASB issued a revised proposed SAS, Amendments to the Description of the Concept of Materiality and to the proposed SSAE, Amendments to the Description of the Concept of Materiality that, if issued as final, will amend the following SASs:

- SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended:
  - Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards (AICPA, Professional Standards, AU-C sec. 200)
  - Section 320, Materiality in Planning and Performing an Audit (AICPA, Professional Standards, AU-C sec. 320)
  - Section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors) (AICPA, Professional Standards, AU-C sec. 600)

- SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements (AICPA, Professional Standards, AU-C sec. 700)

- SAS No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA (AICPA, Professional Standards, AU-C sec. 7032)

If issued as final, the proposed SSAE will amend the following sections of SSAE No. 18, Attestation Standards: Clarification and Recodification:

- Section 205, Examination Engagements (AICPA, Professional Standards, AT-C sec. 205)
- Section 210, Review Engagements (AICPA, Professional Standards, AT-C sec. 210)

**Effective date**

If issued as final, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2020. (This date is provisional but will not be earlier than December 15, 2020.)

If issued as final, the proposed SSAE would be effective for practitioners’ reports dated on or after December 15, 2020. (This date is provisional but will not be earlier than December 15, 2020.)

**ASB**

**Proposed SAS – Audit Evidence**

**Issue date**
June 20, 2019

**Comment deadline**
September 18, 2019

**Background**

The ASB issued SAS No. 122 in October 2011 to apply the clarity drafting conventions to all outstanding SASs issued by the ASB through SAS No. 121, including AU-C section 500, Audit Evidence.
In August 2017, the ASB began a project to assess whether revisions of AU-C section 500 are necessary to address the evolving nature of business and audit services and issues that have arisen during the standard-setting activities of the ASB. These issues include preparers and auditors’ use of emerging technologies and audit data analytics (ADA), application of professional skepticism, and external information sources as audit evidence.

More broadly, the project considered the accuracy, completeness, and reliability of audit evidence.

Emerging audit techniques, such as ADA, and emerging technologies, such as artificial intelligence (AI), robotic process automation (RPA), and blockchain, offer challenges and opportunities that will affect audits of financial and nonfinancial information into the foreseeable future.

For purposes of this proposed SAS, the phrase “automated tools and techniques” refers to emerging audit techniques and emerging technologies. There is ongoing activity in the United States and internationally regarding how the profession should respond to such automated tools and techniques, including whether changes to professional standards would enhance audit quality and make the standards more relevant in today’s environment.

In September 2016, the IAASB issued “Request for Input Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics.” The request for input sought feedback from stakeholders about various aspects of the use of automated tools and techniques. In response to the request for input, the IAASB received more than 55 comment letters. In January 2018, the IAASB’s Data Analytics Working Group published a feedback statement that summarized the input received from responders to the request for input, which provided broad support for the project’s direction.

Given issues identified in the profession related to professional skepticism, the ASB has taken an approach to weave concepts surrounding professional skepticism throughout the proposed SAS, and explain ways in which the auditor would demonstrate the application of professional skepticism when obtaining and assessing the sufficiency and appropriateness of audit evidence.

If issued as final, this proposed SAS will supersede SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 500, Audit Evidence (AU-C section 500).

Proposed changes

Proposed changes are summarized as follows:

- Additional content articulates the relationship between the proposed SAS and other AU-C sections, including AU-C sections 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, and 700, Forming an Opinion and Reporting on Financial Statements. The ASB believes that the proposed SAS would assist the auditor in forming those conclusions by providing the attributes and factors that the auditor would consider in concluding whether the auditor has obtained sufficient appropriate audit evidence for the auditor’s intended purpose.
- Expanded guidance on evaluating whether sufficient appropriate audit evidence has been obtained. This change in focus of the proposed SAS is intended to be accomplished by establishing attributes and factors to consider in evaluating audit evidence.
Several examples of the use of automated tools and techniques in the application material of the proposed SAS. The additional examples illustrate how auditors may use automated tools and techniques and the implications and role of automated tools and techniques in the current audit environment. 

- Incorporates the definition of professional skepticism as set out in AU-C section 200.9. 
- Interweaves concepts surrounding professional skepticism throughout the proposed SAS. 
- Explains auditor performance that would demonstrate the application of professional skepticism when obtaining and evaluating sufficient appropriate audit evidence.

Other topics addressed in the proposal:

- Confirmations 
- Use of management’s specialists 
- Audit documentation

If issued as final, the proposed SAS will be effective for audits of financial statements for periods beginning on or after June 15, 2021.

ARSC

Proposed Statement on Standards for Accounting and Review Services (SSARS): Materiality in a Review of Financial Statements, Adverse Conclusions, and Special Purpose Frameworks

Issue date
June 19, 2019

Comment deadline
September 20, 2019

Background

ARSC issued SSARS No. 21, Statement on Standards for Accounting and Review Services: Clarification and Recodification, in October 2014. In developing SSARS No. 21, ARSC used AU-C section 930, Interim Financial Information, as a base for revised AR-C section 90.

Subsequent to the issuance of SSARS No. 21, ARSC issued SSARS Nos. 22–24 to further clarify the requirements and guidance for preparation, compilation, and review engagements. In developing and issuing SSARS No. 24, Omnibus Statement on Standards for Accounting and Review Services — 2018, which included requirements and guidance with respect to international reporting issues, ARSC determined that further convergence with International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements, was appropriate and in the public interest.

ARSC believes

- it is important for the SSARSs literature to be closely converged with ISRE 2400 (Revised) to facilitate the accountant’s ability to perform and report on engagements in accordance with both sets of standards.
- that unnecessary differences between the standards will result in confusion about whether a review engagement performed in accordance with one set of standards results in the accountant obtaining a different level of assurance than that which would have been obtained had the engagement been performed in accordance with the other set of standards.

Although there are significant differences between an audit engagement and an engagement performed in accordance with SSARSs, certain concepts related to the financial statements are consistent regardless of the level of service performed on those financial statements. ARSC has monitored the standard-setting agenda of the ASB, including the recent issuance of

- proposed SAS Amendments to the *Description of the Concept of Materiality* and proposed SSAE Amendments to the *Description of the Concept of Materiality*.

**Proposed changes**

If adopted, the proposal would amend the following sections of SSARS No. 21 (as amended):

- AR-C section 60, *General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services*
- AR-C section 70, *Preparation of Financial Statements*
- AR-C section 80, *Compilation Engagements*
- AR-C section 90, *Review of Financial Statements*

If adopted, the proposed effective date will be no earlier than June 15, 2021.

**PEEC**

The PEEC did not propose any new or revised standards or interpretations in the period.

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**FASB**

**Proposed ASU**

*Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative*

**Issue date**
May 6, 2019

**Comment deadline**
June 28, 2019
Background

In SEC Release No. 33-10532, “Disclosure Update and Simplification,” issued on August 17, 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles (GAAP) to the FASB for potential incorporation into the FASB ASC. The amendments in this proposed update are the result of FASB’s consideration of those referred disclosures.

The amendments in this proposed update would affect a variety of topics in the FASB ASC. A summary table identifying the subtopics and the nature of the proposed amendments is provided in the “Amendments to the FASB Accounting Standards Codification®” section. The proposed amendments would apply to all entities within the scope of the affected topics unless otherwise indicated.

FASB is seeking input on whether the proposed amendments should apply to private companies and NFPs. However, certain of the disclosures included in the amendments in this proposed update would not be required for entities other than public business entities.

Proposed amendments

Due to the variety of topics proposed to be amended, an entity should review all amendments in this proposed update to determine whether it would be affected by those amendments. For example, certain of the proposed amendments represent clarifications to or technical corrections of the current requirements.

The amendments in this proposed update represent changes to clarify or improve disclosure and presentation requirements of a variety of topics. The proposed amendments would align the requirements in the FASB ASC with the SEC’s regulations and, therefore, would make the FASB ASC easier to apply by eliminating those redundancies and providing clarifications.

Effective date

The amendments in this proposed update would be applied prospectively to financial statements issued after the effective date, which FASB will determine after it considers stakeholders’ feedback on the proposed amendments.

Proposed ASU

Income Taxes (Topic 740)

Issue date
May 14, 2019

Comment deadline
June 28, 2019
Background

FASB is issuing this proposed update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The specific areas of potential simplification in this proposed update were submitted by stakeholders as part of the Simplification Initiative.

Proposed amendments

The amendments in this proposed update would simplify the accounting for income taxes in topic 740 by removing exceptions to the

- incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income).
- requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.
- ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.
- general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments in this proposed update would simplify the accounting for income taxes by removing certain exceptions to the general principles in topic 740.

The proposed amendments also would improve consistent application of and simplify GAAP for other areas of topic 740 by clarifying and amending guidance that already exists within GAAP.

Effective dates

FASB will determine the effective date and whether early adoption of the amendments in this proposed update should be permitted after it considers stakeholder feedback on the proposed amendments.

The amendments in this proposed update related to (1) separate financial statements of legal entities that are not subject to tax and (2) franchise taxes that are partially based on income would be applied on a retrospective basis for all periods presented.

The proposed amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries would be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption.

All other proposed amendments would be applied on a prospective basis.

Proposed ASU

Codification Improvements to Topic 326, Financial Instruments — Credit Losses

Issue date
June 27, 2019
Comment deadline
July 29, 2019

Background
On June 16, 2016, FASB issued ASU No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost basis. That model replaces the probable, incurred loss model for those assets. Through the amendments in that update, FASB added topic 326, “Financial Instruments — Credit Losses,” and made several consequential amendments to the FASB ASC.

FASB has an ongoing project on its agenda for improving the FASB ASC or correcting its unintended application. Items included in that project generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. The amendments in this proposed update are of a similar nature to the items typically addressed in the FASB ASC improvements project. However, FASB decided to issue a separate proposed update for improvements related to update 2016-13 to increase stakeholders’ awareness of the proposed amendments and to expedite the improvements. The proposed amendments include items brought to FASB’s attention by stakeholders.

Proposed amendments
The amendments in this proposed update represent changes to clarify, correct errors in, or improve the FASB ASC, which would make it easier to understand and easier to apply by eliminating inconsistencies and providing clarifications.

Effective date
For entities that have not yet adopted the amendments in update 2016-13 as of the issuance date of a final update, the effective dates and transition requirements for the proposed amendments would be the same as the effective dates and transition requirements in update 2016-13.

For entities that have adopted the amendments in update 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of this update as long as an entity has adopted the amendments in update 2016-13.

For entities that have adopted the amendments in update 2016-13, the amendments in this update should be applied on a modified retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in update 2016-13.
Amendments to the Accelerated Filer and Large Accelerated Filer Definitions

Issue date
May 9, 2019

Background
The SEC is proposing amendments to the accelerated filer and large accelerated filer definitions to promote capital formation for smaller reporting issuers, by more appropriately tailoring the types of issuers that are included in the categories of accelerated and large accelerated filers and revising the transition thresholds for accelerated and large accelerated filers.

Proposed amendments
The proposed amendments would exclude from the accelerated and large accelerated filer definitions an issuer that

- is eligible to be a smaller reporting company, and
- had annual revenues of less than $100 million in the most recent fiscal year for which audited financial statements are available.

The proposed amendments would also increase the transition thresholds

- for accelerated and large accelerated filers becoming non-accelerated filers from $50 million to $60 million, and
- for exiting large accelerated filer status from $500 million to $560 million.

The proposed amendments would add a revenue test to the transition thresholds for exiting both accelerated and large accelerated filer status. As a result of the amendments, certain low-revenue issuers would not be required to have their assessment of the effectiveness of internal control over financial reporting attested to, and reported on, by an independent auditor. However, these companies’ managements would continue to be required to make such assessments and to establish and maintain the effectiveness of their internal control over financial reporting. The SEC believes these and other low-revenue issuers would benefit from the cost savings associated with non-accelerated filer status and could redirect those savings into growing their businesses without significantly affecting the ability of investors to make informed investment decisions based on the financial reporting of those issuers.

Comment deadline
July 29, 2019
Amendments to Financial Disclosures about Acquired and Disposed Businesses

Issue date
May 3, 2019

Background

The SEC is proposing rule amendments to improve the information that investors receive regarding the acquisition and disposition of businesses. The SEC believes the proposed amendments will facilitate more timely access to capital and reduce complexity and compliance costs of these financial disclosures.

The proposed changes are part of the SEC's Disclosure Effectiveness Initiative and follow the SEC's "Request for Comment on the Effectiveness of Financial Disclosures about Entities Other than the Registrant" published in September 2015.

Proposed amendments

Proposed changes include the following:

- Update the significance tests under these rules by revising the investment test and the income test
- Require financial statements of the acquired business to cover up to the two most recent fiscal years (reduced from up to three most recent fiscal years)
- Permit disclosure of financial statements that omit certain expenses
- Clarify when financial statements and pro forma financial information are required
- Permit the use in certain circumstances of, or reconciliation to, International Financial Reporting Standards as issued by the IASB
- No longer require separate acquired business financial statements once the business has been included in the registrant's post-acquisition financial statements for a complete fiscal year

Comment deadline
July 29, 2019

PCAOB

The PCAOB did not propose any new or revised standards or guidance during this period.