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THE PPC
# ACCOUNTING AND AUDITING UPDATE

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## FASB Issues More Lessor Guidance

Approximately three years ago, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities on the balance sheet in order to increase lease accounting transparency and comparability between entities. As the effective dates for both public and private entities drew closer, the FASB issued a few ASUs to clarify some lease accounting details and address implementation questions. The latest such guidance was issued by the FASB in December 2018 as ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*.

ASU 2018-20—

- Provides an accounting policy election for the lessor to exclude the collection of sales and similar taxes from the consideration in the contract and from the variable payments not included in the contract consideration (comparable to the one provided in FASB ASC 606, *Revenue from Contracts with Customers*) and requires that adoption of the accounting policy be appropriately disclosed.
- Requires lessor costs paid directly to third parties by lessees to be excluded from variable consideration (and therefore revenue) by the lessor when the amount paid by the lessee isn't readily determinable by the lessor. Also, the ASU requires lessors to account for costs excluded from the consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments. A lessor should record those reimbursed costs as revenue.
- Clarifies that variable payments with both lease and nonlease components should be allocated to the lease and nonlease components by the lessor when the facts and circumstances on which the variable payment is based occur. After this allocation, the consideration allocated to the lease component would be recognized as income by the lessor based on FASB ASC 842, and the consideration allocated to the nonlease component would be recognized by the lessor based on the applicable accounting guidance, such as FASB ASC 606.
- All entities may apply the ASU either retrospectively or prospectively.

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## Effective Date

The effective date and transition requirements for ASU 2018-20 for entities that haven't adopted FASB ASC 842 before the issuance of ASU 2018-20 are the same as the effective date and transition requirements in ASU 2016-02 (for example, January 1, 2019, for calendar-year-end public business entities and January 1, 2020, for calendar-year-end nonpublic business entities).

For entities that have adopted FASB ASC 842 before the issuance of ASU 2018-20, the effective date of ASU 2018-20 is the same as the original effective date of FASB ASC 842 for the entity. Alternatively, the entity has the option to apply the amendments in either the first reporting period ending after the issuance of this ASU (for example, December 31, 2018, for calendar-year-end entities) or in the first reporting period beginning after the issuance of this ASU (for example, January 1, 2019).

**Practical Consideration:**

ASU 2018-20 is available at **www.fasb.org** and on Checkpoint at **checkpoint.riag.com**.

# Accounting Brief

Consistent with the last several years, the FASB issued a relatively large number of ASUs in 2018. This article provides summary-level information on two recently issued ASUs.

## ASU 2018-12

ASU 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued in August to improve, simplify, and enhance the financial reporting requirements for long-duration contracts issued by insurance entities, thus providing financial statement users with more decision-useful information about the amount, timing, and uncertainty of cash flows related to long-duration contracts. The ASU applies to all insurance entities that issue long-duration contracts as specified in FASB ASC 944. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the amendments is permitted. The ASU provides detailed transition requirements by amendment area.

## ASU 2018-16

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*. There are currently four eligible interest rate benchmarks for use in applying hedge accounting in accordance with FASB ASC 815: interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate (LIBOR) swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. Because of concerns about the sustainability of LIBOR, the FASB is adding the OIS rate based on SOFR as an allowable benchmark interest rate in applying hedge accounting.

For entities that have not adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, the amendments in ASU 2018-16 are required to be adopted concurrently with ASU 2017-12. For public business entities that have adopted ASU 2017-12, the effective date is years beginning after December 15, 2018, and interim periods within those years. For all other entities that have adopted ASU 2017-12, the effective date is years beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted in any interim period if ASU 2017-12 has been adopted.

**Practical Consideration:**

The ASUs are available at **www.fasb.org** and on Checkpoint at **checkpoint.riag.com**.

# PCAOB Adopts Revised Auditing Standards

In December 2018, the Public Company Accounting Oversight Board (PCAOB) announced the adoption of two revised auditing standards—

- PCAOB Release No. 2018-005, *Auditing Accounting ] Estimates, Including Fair Value Measurements*, replaces

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# The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP, CGMA

## Audit Technology Trends From 2019 CPAFMA Survey

The CPA Firm Management Association (CPAFMA) recently released findings from their 2019 Digitally Driven Firm Survey which points to accounting firms continuing to move forward in adopting the profession's paperless best practices and tools. This survey has been conducted every other year since 2003 and is targeted toward firms with 10 or more members. 173 firms participated this year. In this article, we look specifically at the audit department findings from the survey and share the solutions we see firms implementing to become more "digitally driven."

### Remote Access

Auditors, by default, need to be highly mobile. The 2019 survey found that 77% of personnel working outside of the office were able to access firm applications and information via a remote connection the *majority* of the time. This points to firms adopting natively cloud-based applications, such as Thomson's AdvanceFlow, and hosted applications utilizing remote access technologies, such as Citrix and Microsoft Windows Terminal Server, that allow auditors to work effectively through any Internet connection. The obvious benefits of firms adopting remote access technology are that all audit work is completed on centralized servers which eliminates version control issues and the time spent manually checking binders in and out, as well as having to make backups in the field. In addition, this data is capable of being simultaneously accessed by all team members for more effective collaboration. And, since there is no data on the local workstation, the impact of a theft or damaged laptop is minimized.

### Mobile Equipment

Simply stated, working effectively away from the office is required for auditors. In addition to laptops, the survey identified other equipment being taken into the field, with external monitors being the most common accessory utilized by 79% of respondents in 2019 (which was a 17% increase over the previous survey in 2017). The survey identified which brands were selected most often, with 37% standardizing on ASUS, 21% choosing AOC, and 14% using Lenovo. So, if you are not utilizing dual screens in the field, it's time to get onboard! The next most selected audit tool was a Mobile Hot Spot/MiFi device, carried by 62% of responding firms, which provides roaming Internet access through the 4G digital cellular networks. With more applications running in the cloud and firms being concerned with security and malware on client/public WiFi, we expect more auditors will standardize on using the digital cellular networks as these systems become increasingly more robust and secure. The survey also found that more than half of responding firms (51%) were carrying mobile scanners into the field to scan client source documents, which came as somewhat of a surprise considering the adoption of portals and secure email solutions (described further below). Not surprisingly, the number of firms carrying printers (12%) or multifunction devices (5%) remained on the lower end of adoption, which coincides with our experience consulting with audit team members.

### Document Ingress

We have found one of the hallmarks of efficient audit production is formalizing the process to receive all client source documents digitally before the start of the engagement. This requires proactive planning with clients and educating them on the firm's digital tools to facilitate document ingress. More than three out of four responding firms (77%) stated they received the *majority* of their documents electronically utilizing a variety of applications, including Thomson Reuters NetClient CS, Citrix ShareFile, CCH Axcess Portal, and SuraLink, with no individual application garnering more than 20% of the responses. Having all documents ready at the start of the engagement allows the team to work more efficiently from the beginning and reduces the scheduling headaches that are caused when clients aren't ready.

## Scheduling

Managing ever-changing staff assignments within an environment of increasing workload compression has always been a difficult problem for accounting firms. More than three-fourths (76%) of survey respondents stated they utilized a "digital" tool for scheduling, with 51% of responding firms stating they used Microsoft Excel. Our consulting with firms has found that scheduling, along with CRM (Customer Relationship Management), are the two most cited applications that firms are hugely dissatisfied with, and where they are searching for a better solution than Excel. The most often cited stand-alone tool was ProStaff, with 13% of respondents. But this solution was primarily adopted by the largest firms that could afford to dedicate personnel to manage the application. With advances being made in the workflow tools being integrated with practice management, we anticipate more comprehensive scheduling tools to be rolled out in the next few years that will have firms switching away from Excel.

## Data Extraction

With the majority of source documents being received electronically, the next step is to utilize digital tools for more precise data analysis and extraction. The CPAFMA survey found that 78% of responding firms were already using data extraction tools on the *majority* of their engagements, with Microsoft Excel once again being the primary application being utilized (59%). This was followed by 18% of responding firms utilizing CaseWare's IDEA application. The increased awareness and adoption of artificial intelligence tools has spawned a series of data analytics tools that are significantly more automated, so we anticipate smaller firms will be able to take advantage of data extraction capabilities in the near future to save time and improve accuracy on assurance engagements.

## Tax Integration

Integrating audit trial balances with tax applications not only saves time in manually re-keying data but also reduces errors. The 2019 survey found that 59% of firms configured their tax groupings within the trial balance to be exported to the tax return. Many firms have found that exporting the tax data at completion of field work and collaborating on the review at that time saves significant effort, as tax issues can be discussed while the knowledge is fresh in the auditor's mind.

## Expense Reports

The survey found that two-thirds (66%) of firms created and submitted digital expense reports for reimbursement. Utilizing the capabilities within the firm's practice management application to create the digital expense report was the most popular method (selected by 29% of respondents), while 23% of firms were using Microsoft Excel/Adobe PDF to generate and submit their reports. An interesting trend was that 6% of firms utilized a smartphone application which was split evenly between Expensify and Tallie. When firms make the effort to walk through their entire manual expense report process, they quickly see the benefit of transitioning to the digital tools they already have access to.

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AS 2501, *Auditing Accounting Estimates*, and rescinds both AS 2502, *Auditing Fair Value Measurements and Disclosures*, and AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*. Various other auditing standards are revised because of the changes to AS 2501.

- PCAOB Release No. 2018-006, *Amendments to Auditing Standards for Auditor's Use of the Work of Specialists*, replaces AS 1210, *Using the Work of a Specialist*, retitling the standard as, *Using the Work of an Auditor-Engaged Specialist*. Revised AS 1210 also includes changes to several other auditing standards.

## AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*

The revisions to AS 2501 are designed to create a more uniform risk-based approach to a complex, judgment-based area that is of increasing importance to investors. (Extant AS 2501, AS 2502, and AS 2503 predate the PCAOB's risk assessment standards and, thus, needed revision.) As new accounting standards become effective, estimates become more prevalent in financial statement items and disclosures. Valuations, impairments, expected credit losses, and revenues from contracts with customers all involve significant estimates by management.

A few of the key provisions of revised AS 2501 include—

- Prompting auditors to devote more consideration to addressing potential management bias and reinforcing the application of professional skepticism.
- Creating a more consistent substantive testing approach by extending some requirements from current standards on auditing fair value measurements to all accounting estimates in significant accounts and disclosures.
- Further integrating the risk assessment standards by emphasizing greater focus on estimates with higher risk of material misstatement.

## AS 1210, *Using the Work of an Auditor-Engaged Specialist*

The revisions to AS 1210 are designed to strengthen the requirements for evaluating the work of specialists engaged or employed by the company and to implement a more risk-based approach overall. The changes also require a supervisory approach by the auditor when working with specialists the auditor engages or employs. Because specialists are often employed to assist in developing or auditing significant estimates, the PCAOB closely coordinated the AS 1210 revisions with their changes for auditing estimates in AS 2501.

A few of the key provisions of revised AS 1210 include—

- Establishing requirements for using an auditor-engaged specialist to help obtain or evaluate audit evidence.
- Adding to AS 1105, *Audit Evidence*, new Appendix A that addresses using the work of a company's specialist as audit evidence.
- Adding to AS 1201, *Supervision of the Audit Engagement*, new Appendix C that addresses supervising the work of auditor-employed specialists.

## Effective Dates

Subject to approval by the SEC, the revised standards are effective for audits conducted under PCAOB standards for fiscal years ending on or after December 15, 2020.

### Practical Consideration:

Both revised standards are available on the PCAOB's website at **pcaobus.org/standards/pages/recently-completed-standard-setting-activities.aspx**.

# New Standard for ERISA Benefit Plan Audits

The AICPA's Auditing Standards Board has voted to issue a new auditing standard, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

This new standard is intended to help auditors better understand their responsibilities and provide plan sponsors and participants, Department of Labor (DOL) officials, and others with more information about auditors' responsibilities when auditing the financial statements of benefit plans governed by ERISA. This new standard is subject to conforming amendments that may be necessary once the proposed Auditor Reporting and related amendments SAS is voted to be issued, which is expected to occur in the first half of 2019.

This new ERISA standard will cause significant changes to the form and content of the auditor's report on plan financial statements, as well as ERISA-required supplemental schedules. In addition, subsequent to the effective date, audits previously referred to as "limited scope

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audits" will be referred to as "ERISA section 103(a)(3)(C) audits."

The final ERISA section 103(a)(3)(C) report is expected to require auditors to provide two-level opinions: an opinion on whether the information not covered by certification is presented fairly, and an opinion on whether the certified investment information in the financial statements agrees to or is derived from the certification.

## Highlights of the New Requirements

- *Engagement Acceptance*. New engagement acceptance requirements will result in acknowledgment of certain management's responsibilities within the engagement letter, including maintaining a current plan instrument, administering the plan, and providing the auditor a draft Form 5500 prior to the date of the auditor's report.
- *Risk Assessment and Responses*. The auditor should obtain and read the most current plan instrument as part of obtaining an understanding of the entity sufficient to perform risk assessment procedures. The auditor should also consider relevant plan provisions that affect the risk of material misstatement when designing and performing audit procedures.
- *Communication With Those Charged With Governance*. This SAS describes certain communications the auditor is required to make with management and/or those charged with governance, including reportable findings communicated in writing and discussions of any matters that arise during the performance of an ERISA 103(a)(3)(C) audit.
- *Procedures for an ERISA 103(a)(3)(C) Audit*. Management electing to have an ERISA 103(a)(3)(C) audit would be required to provide the auditor with a certification of investment information prepared and certified by a qualified institution so that it may be compared to information in the ERISA plan financial statements and ERISA-required supplemental schedules.
- *Management Representations*. In addition to those required by AU-C 580, the auditor should obtain written management representations regarding certain of management's responsibilities for administering the plan.
- *Form 5500*. Management would need to provide the auditor with a draft of the Form 5500 in order to allow the auditor to review the draft for material inconsistencies with the audited ERISA plan financial statements and determine if either the draft or the financial statements require revision.

## Scope

For audits of ERISA plan financial statements, this SAS is intended to replace AU-C 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph .09 of AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*. This SAS also would amend various other AU-C sections in the AICPA *Professional Standards*.

## Effective Date

This SAS is expected to be effective no earlier than for audits of ERISA plan financial statements for periods ending on or after December 15, 2020. Early adoption isn't permitted.

### Practical Consideration:

The final balloted draft of this SAS is available at **www.aicpa.org** and on Checkpoint at **checkpoint.riag.com**.