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FASB Proposes Delaying Effective Dates for Three Major Standards



On August 15, 2019, the FASB issued a proposal that would defer the effective dates for certain entities for several of its major accounting standards, including ASU 2016-02, *Leases (Topic 842)*; ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*; and ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The delays will provide smaller reporting companies, private companies, and not-for-profit entities well-needed relief from implementation burdens to adopt some of the most significant new accounting rules to be introduced in decades.

Effective Dates

Under the proposal, effective dates for the Leases, CECL, and Hedging accounting standards would be amended as follows:

- ASU 2016-02, *Leases (Topic 842)* (Leases): (1) For public business entities, not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter

market and employee benefit plans that file or furnish financial statements with or to the SEC, the effective dates remained for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; (2) For all other entities, Leases would be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption would be allowed.

- ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL): (1) For SEC filers, excluding entities eligible to be SRCs as defined by the SEC, CECL would be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years; (2) For all other entities, CECL would be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
- ASU 2017-12, *Derivatives and Hedging (Topic 815): Target Improvements to Accounting for Hedging Activities* (Hedging): (1) For public business entities, including SRCs, the effective

In this Issue:

- FASB Proposes Delaying Effective Dates for Three Major Standards
- AICPA Issues Standards for Forensic Accounting Services
- AICPA Issues Omnibus SAS



date remained for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; (2) For all other entities, Hedging would be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption would be allowed.

Practical Consideration:

The FASB proposal is available at www.fasb.org and Checkpoint at checkpoint.riag.com.



AICPA Issues Standards for Forensic Accounting Services

CPAs have offered forensic accounting services for decades, but until recently, no specific authoritative standards existed for those services. That has now changed. In June 2019, the Forensic and Valuation Services Executive Committee of the AICPA published Statement on Standards for Forensic Services No. 1 (FS 100) for CPAs who perform forensic accounting services.

Scope of the New Standards

FS 100.01 indicates that the standards apply to AICPA members who provide client services for litigation support (including alternative dispute resolution) or investigative matters. For litigation matters, such services include being an expert witness, consultant, neutral, mediator, or arbitrator. In an investigative matter, the CPA performs procedures to collect, analyze, evaluate, or interpret evidential matter that assists stakeholders in reaching a conclusion based on the merits of the situation.

FS 100.02 explains that the standard applies only to litigation or investigation engagements, and further stipulates when certain other authoritative standards may or may not apply to a forensic services engagement. For example, the guidance under FS 100 doesn't apply when CPAs perform forensic services as part of an attest engagement (such as an audit, review, or compilation).

FS 100.03 explains that it is the purpose for which a CPA was engaged (that is, whether it is a litigation or investigation matter), as opposed to the skills used or

services provided, that helps determine whether FS 100 applies to the engagement.

Effective Date

FS 100 is effective for new engagements accepted on or after January 1, 2020, but may be applied earlier.

Practical Consideration:

FS 100, *Statement on Standards for Forensic Services No. 1*, is available at www.aicpa.org or in the AICPA Profession Standards on Checkpoint at checkpoint.riag.com.



AICPA Issues Omnibus SAS

In May 2019, the AICPA issued SAS 135, *Omnibus Statement on Auditing Standards—2019*, which amends 13 sections of the Statements on Auditing Standards. The amendments result from the evaluation of three auditing standards that have been issued by the Public Company Accounting Oversight Board (PCAOB) since the AICPA's Auditing Standards Board (ASB) completed its auditing standards clarity project: AS 1301, *Communication With Audit Committees*; AS 2701, *Supplementary Information*; and AS 2410, *Related Parties*. The ASB determined that these PCAOB standards included guidance not found in current SASs that enhance audits of the financial statements of nonissuers. Based on its review and evaluation of the PCAOB standards, the ASB made certain amendments to existing GAAS.

No changes were considered necessary related to AS 2701 on supplementary information. However, amendments were made based on the ASB's review of AS 1301 on communication with audit committees and AS 2410 on related parties. The following paragraphs discuss certain of the significant matters being made by the SAS.

Communication with Audit Committees

The changes arising from AS 1301 impact AU-C 260, *The Auditor's Communication With Those Charged With Governance*. These changes add requirements for the auditor to communicate views pertaining to the entity's significant unusual transactions and matters for which the

auditor consulted outside the engagement team that may be relevant to the responsibility of those charged with governance to oversee the financial reporting process. In addition, the auditor should communicate the possible effects of uncorrected misstatements on future period financial statements. The auditor is not required to communicate required communications at the same level of detail if these communications are made by management. However, the auditor should be present for these communications and should document the details of these communications in the workpapers.

Related Parties

Amendments that result from the evaluation of AS 2410 primarily affect AU-C 550, *Related Parties*. These proposed amendments are intended to increase the auditor's focus on related parties, relationships, and associated transactions. The SAS enhances existing requirements to identify related parties or significant related-party transactions that were previously unidentified or undisclosed. Also, the auditor's response to the risks of material misstatement relating to related parties, relationships, and associated transactions is enhanced by including procedures for testing the completeness and accuracy of related parties, relationships, and transactions.

This is accomplished by requiring auditors to do the following:

- Perform additional inquiries of—
 - Management and others within the entity regarding business purpose of entering into a transaction with a related party versus an unrelated party.
 - Management and others within the entity regarding whether there are any related-party transactions that haven't been properly authorized and approved, if there were any exceptions to the authorization/approval process, and the reasons for granting those exceptions.
 - Those charged with governance (unless all are involved in the entity's management) their understanding of the entity's significant relationships and transactions with related parties, if they have any concerns with the relationships or transactions with related parties, and, if so, the substance of those concerns.
- Evaluate whether the entity has properly identified its related-party relationships and transactions through procedures to test the accuracy and completeness of the related-party relationships and transactions identified by the entity.

- Perform procedures on balances with affiliated entities as of concurrent dates, even if fiscal years of the respective entities differ, to address the risks of material misstatement associated with the entity's accounts with affiliates.

In addition, amendments to AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, require communication with component auditors about the nature of relationships and transactions with related parties.

Significant Unusual Transactions

Amendments to AU-C 240, *Consideration of Fraud in a Financial Statement Audit*, address significant unusual transactions as follows—

- Define *significant unusual transactions* as those that are either outside the entity's normal course of business or appear unusual due to timing, size, or nature.
- Add an additional management inquiry requirement regarding whether the entity has entered into any significant unusual transactions. If any, the auditor should also ask for details concerning the nature, terms, and business purpose and whether such transaction(s) were with a related party.
- Require the design and performance of procedures addressing the risk of management override of controls to include: reading the underlying documentation supporting the business purpose of significant unusual transactions and evaluating the consistency with explanations from inquiries and other audit evidence; determining whether these transactions have been properly authorized and approved in accordance with established policies and procedures; and evaluating whether identified significant unusual transactions have been properly accounted for and disclosed in the financial statements.

Other Amendments

The following AU-C sections are also being amended to enhance guidance regarding related parties and significant unusual transactions:

- AU-C 265, *Communicating Internal Control Deficiencies Identified in an Audit*; AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; AU-C 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*; AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*; and AU-C 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit*

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of *Financial Statements*, include mostly conforming terminology changes related to significant unusual transactions. AU-C 330 also states substantive procedures that consider the types of potential misstatements that could result from significant unusual transactions may be necessary when determining risks of material misstatement due to error or fraud.

- AU-C 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*, includes an amendment to enhance guidance relating to obtaining information about related parties and significant unusual transactions from predecessor auditors.
- AU-C 560, *Subsequent Events and Subsequently Discovered Facts*, includes an amendment intended to enhance guidance relating to obtaining information about subsequent events by expanding the list of possible inquiries to include related parties and significant unusual risks.

- AU-C 580, *Written Representations*, and AU-C 930, *Interim Financial Information*, were amended to add a couple of additional representations an auditor may want to obtain regarding support that any related-party transactions were conducted on terms equivalent to an arm's-length transaction and whether any written or oral side agreements or other arrangements exist that haven't been disclosed to the auditor.

SAS No. 135 is effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is permitted.

Practical Consideration:

The SAS is on Checkpoint at checkpoint.riag.com.

