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A&A Update

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July 20, 2022



GAAP Update

GAAP Update

- ❑ ASU 2021-10, Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance
- ❑ ASU 2020-07, Gifts In Kind Presentation and Disclosure
- ❑ Current Expected Credit Loss, CECL (Topic 326)

ASU 2020-07, Gifts In Kind Presentation and Disclosure

- ❑ Examples – cryptocurrency, donated food, clothing, medical equipment, fixed assets, auction items, rent, services
- ❑ Requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities
- ❑ Additional disclosures:
 - Disaggregation of type
 - Description of program if utilized
 - Monetizing policy (if applicable)
 - Donor-imposed restrictions
 - Fair value measurement determination

Current Expected Credit Loss (CECL) - Topic 326

- Applicability:
 - Loans and debt instruments
 - Financial guarantee contracts and loan commitments
 - Trade receivables and contract assets, following revenue recognition (topic 606)

- CECL Allowance = historical losses + adjustment for current conditions + supportable forecasts + any revisions to historical losses

Industry Developments

Current Economic Considerations for Current Year Audits

- Increase in federal funding
- Unemployment
- Interest rates on the rise
- Inflation
- Contribution fluctuations
- Increase in volunteers



Statement of Auditing Standards (SAS) Updates

Statement of Auditing Standards (SAS) Updates

Standard	Description	Effective date
SASs		Audits of financial statements for:
134	Auditor reporting and amendments	Periods ending on or after December 15, 2021
135	Omnibus – certain changes to conform to PCAOB standards	Periods ending on or after December 15, 2021 (Except amendments to AU-C 930 – effective for interim periods of fiscal years ending on or after December 15, 2021)
136	Auditor reporting on employee benefit plans	Periods ending on or after December 15, 2021
137	Other Information included in annual reports	
138	Amendments to the description of materiality	
139	Amendments to AU-C 800, 805, and 810 for auditor reporting changes	
140	Amendments to AU-C 725, 730, 935, and 940 for auditor reporting changes Amendments to AU-C 930	Periods Ending on or after December 15, 2021 (Except amendments to AU-C 930 – effective for interim periods of fiscal years beginning on or after December 15, 2021)
141	Deferral of effective dates for SAS 134-140	Effective upon issuance

Statement of Auditing Standards (SAS) Updates

Standard	Description	Effective date
SASs		Audits of financial statements for:
142	Audit Evidence	Periods ending on or after December 15, 2022
143	Auditing accounting estimates and related disclosures	Periods ending on or after December 15, 2023
144	Use of specialists and use of pricing information	
145	Risk assessment	
146	Quality management for an engagement performed in accordance with GAAS	Engagements conducted in accordance with GAAS for periods beginning on or after December 15, 2025
147	Inquiries of the predecessor auditor regarding fraud noncompliance with laws and regulations	Periods <u>beginning</u> on or after June 30, 2023

Other New Standards

Standard	Description	Effective Date
SSAEs		
SSAE 19	Agreed upon procedures	Reports dated on or after July 15, 2021
SSAE 20	Amendments to the description of materiality	Examination or review reports dated on or after December 15, 2021
SSAE 21	Direct Examinations	Reports dated on or after June 15, 2022
SSAE 22	Review Engagements	
SQMSs		
SQMS 1	A Firm's System of Quality Management	<ul style="list-style-type: none"> Systems of quality management in compliance with this SQMS are required to be designed and implemented by December 15, 2025 Evaluation of the system of quality management is required to be performed within one year following December 15, 2025
SQMS 2	Engagement Quality Reviews	Periods beginning on or after December 15, 2025

SAS 134

Significant Changes to the Auditor's Report

1. Opinion section included first
2. “Basis for Opinion” section second
3. Optional Key Audit Matters section can be included (New AU-C section 701)
4. Expanded descriptions of management and auditor responsibilities
5. Still have *emphasis-of-matter* and *other matter* paragraphs

Independent Auditor's Report

Board of Directors

We have audited the accompanying financial statements of [REDACTED] which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [REDACTED] as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

SAS 134 Implementation

Independent Auditor's Report

Board of Directors

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of [REDACTED], which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [REDACTED] as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of [REDACTED] and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about [REDACTED]'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [REDACTED]'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about [REDACTED]'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

SAS 135

Omnibus Statement on Auditing Standards – 2019

- ❑ Amendments to AU-C 260, *Communication with TCWG*, and AU-C 550, *Related Parties*, as well as various other sections
- ❑ Amendments intended to enhance audit quality by heightening the auditor's focus on:
 - Related parties and relationships and transactions with related parties
 - Significant unusual transactions
 - Inquiry of the predecessor auditor regarding their understanding of related party (RP) relationships/transactions and significant unusual transactions

SAS No. 136

Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

- ❑ New AU-C section 703 (AU-C 700 would no longer apply for ERISA plans)
- ❑ Key changes to the form and content of the auditor's report and new performance requirements
- ❑ "Limited-Scope" Audits are now referred to as ERISA section 103(a)(3)(C) audits
- ❑ Requirements to enhance audit quality and revised auditor's report on ERISA plan financial statements and provide better insight into responsibilities of management and the auditor

SAS No. 137

The Auditor's Responsibilities Relating to Other Information (OI) Included in Annual Reports

- ❑ Clarifies documents that are within the scope of the Standard
- ❑ Other information (OI)
 - Financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in an entity's annual report
- ❑ Auditor is required to remain alert for indications that a material:
 - Inconsistency exists between the OI and the auditor's knowledge obtained in the audit
 - Misstatement of fact exists, or the OI is otherwise misleading

SAS No. 137

The Auditor's Responsibilities Relating to Other Information (OI) Included in Annual Reports

- If OI is available prior to the audit issuance in a separate section in the auditor's report addressing OI:
 - Management is responsible for the OI
 - Identify the OI and that it does not include the financial statements and the auditor's report
 - A statement that the auditor's opinion on the financial statements does not cover the OI and the auditor does not express an opinion or any form of assurance
 - Auditor's responsibility to read the OI and consider whether a material inconsistency exists or appears to be materially misstated

SAS No. 137

The Auditor's Responsibilities Relating to Other Information (OI) Included in Annual Reports

- If OI is available after the audit issuance:
 - Auditor's responsibility does not change
 - No reference included in auditor's opinion
 - Representation should be included requesting information be provided

Old definition of misstatements:

Misstatements, including omissions, are considered to be material if, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users made on the financial statements.

New definition of misstatements:

Misstatements, including omissions, are considered to be material **if there is substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements**

SAS No. 138 and SSAE No. 20 *Amendments to the Description of the Concept of Materiality*

- ❑ Amendments intended to eliminate inconsistencies between the AICPA *Professional Standards* and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators
- ❑ Not intended to change U.S. practice
- ❑ Prompted by recent FASB amendment of its description of materiality to be more consistent with others in the U.S.

SAS No. 139

Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134

- ❑ Aligns certain AU-C sections with the reporting provisions of SAS No. 134 and other recently issued SASs
- ❑ Involves special purpose accounting frameworks and other unique reporting scenarios

SAS No. 142

Audit Evidence

- ❑ Effective for audits of financial statements for periods ending on or after December 15, 2022 (CY 2022; FY 2023)
- ❑ **Audit Evidence** - Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence is information to which audit procedures have been applied and consists of information that corroborates or contradicts assertions in the financial statements.
- ❑ What constitutes audit evidence; attributes of information that is taken into account by the auditor when evaluating information to be used as audit evidence

SAS No. 142

Audit Evidence

- ❑ Old objective: To design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion
- ❑ **New objective:** To evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained

SAS No. 142

Audit Evidence

Develops a framework for evaluating attributes of audit evidence, including:

- ❑ Sufficiency
- ❑ Appropriateness
 - Relevance and reliability (including its source)
- ❑ Whether the information corroborates or contradicts management's assertions
- ❑ Whether the information is sufficiently precise and detailed

SAS No. 143

Auditing Accounting Estimates and Related Disclosures

- ❑ Effective for audits of financial statements for periods ending on or after Dec. 15, 2023 (CY23; FY24)
- ❑ Addresses the auditor's responsibilities relating to accounting estimates and related disclosures
- ❑ Enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates

SAS No. 143

Auditing Accounting Estimates and Related Disclosures

- ❑ Explains the nature of accounting estimates and the concept of estimation uncertainty
- ❑ Provides information about scalability of the SAS for all types of accounting estimates, from those that are relatively simple to those that are complex
- ❑ Requires a **separate assessment of inherent risk and control risk**
- ❑ Provides risk assessment requirements that are more specific to estimates and addresses the increasingly complex business environment and complexity in financial reporting frameworks

SAS No. 143

Auditing Accounting Estimates and Related Disclosures

- ❑ Emphasizes that the auditor's further audit procedures need to be more responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level
- ❑ Refers to relevant requirements in other AU-C sections and provides related guidance to emphasize the importance of the auditor's decisions about controls relating to accounting estimates

SAS No. 143

Auditing Accounting Estimates and Related Disclosures

- ❑ Addresses the exercise of professional skepticism when auditing accounting estimates
- ❑ Requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in context of the applicable financial reporting framework

Key Aspects include

- ❑ Certain amendments enhance guidance about evaluating the work of the management’s specialist
- ❑ Provides additional guidance on the use of specialists, both auditor’s and management’s
- ❑ New appendix, “Use of Pricing Information From Third Parties as Audit Evidence,” provides guidance on using such information as audit evidence

SAS No. 144

Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources

- ❑ Effective for audits of financial statements for periods ending on or after December 15, 2023 (CY23; FY24)
- ❑ Provides additional guidance on the use of specialists, both management’s and auditor’s
- ❑ Appendices that provide guidance on using pricing information as audit evidence for estimates related to the fair value of financial instruments

SAS No. 145

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

What's New?	<ul style="list-style-type: none"><input type="checkbox"/> Supersedes AU-C Section 315 and amends various other sections<input type="checkbox"/> Effective periods ending on or after 12/15/2023
Key aspects include:	<ul style="list-style-type: none"><input type="checkbox"/> New and revised risk assessment terminology, including revised definition of significant risk<input type="checkbox"/> Clarified work effort related to understanding each of the components of internal control, including enhanced guidance on information technology (IT)<input type="checkbox"/> Separately assess inherent risk and control risk<input type="checkbox"/> “Maximum” control risk when controls are not tested for operating effectiveness<input type="checkbox"/> Risk assessment “stand-back” requirement

SAS No. 145

Work Effort Related to Understanding Internal Control

- Components of Internal Control:
 - Control environment
 - Risk assessment
 - Information & communication
 - Control activities
 - Monitoring

SAS No. 145 *At a Glance*

SAS No. 145 does not fundamentally change the key concepts underpinning audit risk. Rather, it clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality.

- New requirements and guidance:
 - A revised definition of significant risk;
 - Revised requirements to evaluate the design of certain controls within the control activities component, including general information technology (IT) controls, and to determine whether such controls have been implemented;
 - A new requirement to separately assess inherent risk and control risk;
 - A new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk;
 - A new “stand-back” requirement intended to drive an evaluation of the completeness of the auditor’s identification of significant classes of transactions, account balance, and disclosures;
 - Revised requirements relating to audit documentation;
 - New guidance on scalability; and
 - New guidance on maintaining professional skepticism

SAS No. 147

At a Glance

- ❑ SAS No. 147 clarifies requirements and guidance related to the auditor's inquiries of a predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement
- ❑ To require an auditor, once management authorizes the predecessor auditor to respond to inquiries from the auditor, to inquire of the predecessor auditor regarding identified or suspected fraud and matters involving NOCLAR
- ❑ SAS No. 147 also clarifies that once an engagement is accepted, the auditor should document the inquiries of the predecessor auditor and the results of those inquiries

Statements on Quality Management Standards (SQSM)

- ❑ SQMS No. 1, *A Firm's System of Quality Management*
- ❑ SQMS No. 2, *Engagement Quality Reviews*
- ❑ SAS No. 146, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards*
- ❑ Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*

Key Changes

1. New risk-based approach focused on quality management tailored to each firm
2. Increase firm leadership responsibilities and accountability, and improve firm governance
3. Increase focus on the continual flow of information and appropriate communication, internally and externally
4. More robust engagement quality review (EQR)
5. Enhance engagement partner's (EP's) responsibility for audit engagement leadership and audit quality



The components of an SQM

Design, implement and operate a *SQM* that provides the firm with reasonable assurance that the *objectives of the SQM* are achieved.

SAS No. 146

Engagement Resources

- ❑ The engagement partner is required to take responsibility for the direction and supervision of the engagement team and review of their work.
- ❑ Includes tailoring the nature, timing, and extent of this responsibility to the nature and circumstances of the engagement and the resources assigned to the engagement. Resources:
 - Technological
 - Intellectual
 - Human
- ❑ If the resources are insufficient or inappropriate, the EP is required to take appropriate action

SSAE No. 21

At a Glance

- ❑ SSAE No. 21 adds a new AT-C section (designated as AT-C section 206, *Direct Examination Engagements*)
 - **AT-C section 206** → Enables entities not providing an assertion about whether the underlying subject matter is in accordance with the criteria, to undergo examination engagement, and always required to acknowledge its responsibility for the underlying subject matter
 - **AT-C section 105** → Defines terms *underlying subject matter* and *subject matter information*

SSAE No. 21

At a Glance, cont.

□ **AT-C section 205**

- Following are additional changes made to AT-C section 205:
 - Adds statement to practitioner's examination report which indicates that the practitioner is required to be independent and adhere to ethical requirements
 - Requires practitioner to determine whether responsible party has a reasonable basis for making its assertion
 - Acknowledges practitioner's ability to add information to report that goes beyond the minimum required by AT-C section 205

- **SSAE No. 21 is effective for reports dated on or after June 15, 2022**

SSAE 22

At a Glance

- ❑ SSAE No. 22 revises AT-C section 210 for consistency with AT-C section 205, *Assertion-Based Examination Engagements* (pursuant to SSAE No. 21, *Direct Examination Engagements*)
- ❑ Procedures to obtain review evidence:
 - Analytical procedures
 - Inspection
 - Observation
 - Confirmation
 - Recalculation
 - Reperformance

Resources

- ❑ <https://us.aicpa.org/research/standards/auditattest>
- ❑ <https://us.aicpa.org/interestareas/frc/auditattest/standards/tracker-auditandattest.html>
- ❑ AICPA “At a Glance” series
- ❑ AICPA 2022 Governmental and Not-for-Profit Training Program

Thank You!



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