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A&A and SAS Update

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A&A UPDATE

A&A Update – Applicable Now

- ❑ ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments – *see separate presentation*
- ❑ ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment
- ❑ ASU 2022-04, Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

- ❑ Effective Date (delayed by issuance of ASU 2019-10):
 - Public Business Entities – Fiscal years beginning after December 15, 2019
 - All Other Entities – Fiscal years beginning after December 15, 2022
 - Early adoption is permitted
- ❑ Transition Method:
 - Apply amendments on a prospective basis
- ❑ Main Provisions
 - Eliminates Step 2 of the Goodwill impairment test
 - Entities shall perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount.
 - Also eliminates the requirements for any reporting unit with zero or negative carrying amount to perform a qualitative assessment and if it fails that test to perform Step 2 of the goodwill impairment test
 - Still have the option to perform the qualitative assessment for a reporting unit to determine if quantitative impairment test is necessary.

ASU 2022-04, Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

- ❑ Effective Date
 - All Entities – fiscal years beginning after December 15, 2022, except the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023
 - Early adoption is permitted.
- ❑ Transition Method
 - Apply retrospectively to each period in which a balance sheet is presented, except for the amendment on rollforward information, which should be applied prospectively
- ❑ Main Provisions
 - ❑ Require that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period and potential magnitude.

ASU 2022-04, Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations

- ❑ Disclosures:
 - Disclose both qualitative and quantitative information about its supplier finance programs
 - ❑ Key terms of the program, including a description of payment terms and assets pledged as security
 - ❑ For obligations the buyer has confirmed are valid to the finance provider or intermediary
 - ❑ Amount outstanding that remains unpaid by the buyer as of the end of the annual period
 - ❑ Description of where those obligations are presented in the balance sheet
 - ❑ A rollforward of those obligations during the annual period, including the amount of obligations confirmed and the amount of obligations subsequently paid.

A&A Update – Applicable Later

- ❑ ASU 2021-08, Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers
- ❑ ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method
- ❑ ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions
- ❑ ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets
- ❑ ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures
- ❑ ASU 2024-02, Codification Improvements – Amendments to Remove References to Concepts Statements

ASU 2021-08, Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

- Effective Date:
 - Public Business Entities – fiscal years beginning after December 15, 2022
 - All Other Entities – fiscal years beginning after December 15, 2023
 - Early adoption is permitted

- Transition Method
 - Prospectively to business combinations occurring on or after the effective date.

- Main Provisions:
 - Require an entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606.

ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method

- ❑ **Effective Date:**
 - Public Business Entities – fiscal years beginning after December 15, 2022
 - All Other Entities – fiscal years beginning after December 15, 2023
 - Early adoption is permitted

- ❑ **Transition Method**
 - Varies

- ❑ **Main Provisions**
 - Allows nonprepayable financial assets to be included in a closed portfolio hedge using the portfolio layer method.
 - Allow multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments

ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

- ❑ Effective Date:
 - Public business entities: fiscal years beginning after December 31, 2023
 - All other entities: fiscal years beginning after December 31, 2024
 - Early adoption is permitted

- ❑ Transition Method:
 - Apply prospectively with any adjustments from adoption recognized in earnings and disclosed on the date of adoption

- ❑ Main Provisions
 - Clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and is not considered in measuring fair value.
 - Clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction
 - The following disclosures are required:
 - Fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
 - Nature and remaining duration of the restrictions
 - Circumstances that could cause a lapse in the restrictions

ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

- ❑ Effective Date:
 - All entities fiscal years beginning after December 15, 2024
 - Early Adoption is permitted.
- ❑ Transition Method:
 - Cumulative-effect adjustment to the opening balance of net assets or equity as of the beginning of the reporting period of adoption
- ❑ Main Provisions
 - Applies to assets meeting the following criteria:
 - Meet the definition of intangible assets as defined in the Codification
 - Do not provide the asset holder with enforceable rights to or claims on underlying good, services, or other assets
 - Are created or reside on a distributed ledger based on blockchain or similar technology
 - Are secured through cryptography
 - Are fungible
 - Are not created or issued by the reporting entity or its related parties
 - Entities are required to subsequently measure assets meeting the criteria at fair value with changes recognized in net income each reporting period

ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets

□ Presentation

- Crypto assets measured at fair value separately from other intangible assets in the balance sheet
- . Changes from the remeasurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement.
- Specific presentation of cash receipts arising from crypto assets that are received as noncash consideration in the ordinary course of business

□ Disclosures

- Name, cost basis, fair value, number of units for each significant crypto asset holding and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant
- For crypto assets that are subject to contractual sale restrictions, the fair value of those crypto assets, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restrictions to lapse.
- A rollforward, in the aggregate, of activity during the reporting period for crypto asset holdings
- Difference between the disposal price and the cost basis and activities that resulted in dispositions
- Income statement line item in which gains and losses are recognized if not separately presented
- Method for determining the cost basis of crypto assets

ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures

- **Effective Date**
 - Public Business Entities – fiscal years beginning after December 15, 2024
 - All Other Entities – fiscal years beginning after December 15, 2025
 - Early application is permitted

- **Transition Method**
 - Prospective basis, however, retrospective application is permitted.

- **Main Provisions**
 - Public Business Entities disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold; Other entities are required to provide qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate
 - **Income Taxes Paid**
 - Disclose the amount of income taxes paid disaggregated by federal, state and foreign taxes
 - Disclose the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than 5 percent of total income taxes paid
 - **Other Disclosures**
 - Income or loss from continuing operations before income tax expense disaggregated between domestic and foreign
 - Income tax expense from continuing operations disaggregated by federal, state and foreign

ASU 2024-02, Codification Improvements – Amendments to Remove References to the Concepts Statements

- ❑ Effective Date
 - Public Business Entities – fiscal years beginning after December 15, 2024
 - All Other Entities – fiscal years beginning after December 15, 2025
 - Early application is permitted

- ❑ Transition Method
 - Prospectively to all new transactions recognized on or after the date adopted
 - Retrospectively to the beginning of the earliest comparative period presented through an adjustment to opening balance net assets or equity

- ❑ Generally will not result in significant accounting changes for most entities



STATEMENT OF AUDITING STANDARDS (SAS) UPDATES

Statement of Auditing Standards (SAS) Updates

Standard	Description	Effective date
SASs		Audits of financial statements for:
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 beginning on or after June 30, 2023
148	Amendment to AU-C Section 935, Compliance Audits	Periods on or after December 15, 2022 to align with effective date of SAS 142; All other amendments effective for compliance audits for period ending on or after December 15, 2023, consistent with SAS 145
149	Audits of Group Financial Statements	Periods ending on or after December 15, 2026

Statements on Standards for Attestation Engagements (SSAE)

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	
SSAE 23	Amendments to the Attestation Standards for Consistency with the Issuance of ACIPA Standards on Quality Management	Engagements beginning on or after December 15, 2025

Statements on Quality Management Standards (SQMS)

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
SQMS 3	Amendments to SQMS 1 and 2	Effective concurrently with effective dates in SQMS 1 and 2

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

<p>Key Aspects include</p>	<ul style="list-style-type: none"> ❑ 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
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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 noncompliance
- ❑ 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

SAS No. 148

At a Glance

- ❑ Amends AU-C section 935, Compliance Audits, to address conforming changes and update the appendic AU-C Sections That Are Not Applicable to Compliance Audits to reflect the issuance of SAS 142 (Audit Evidence) and SAS 145 (Understand the Entity and Its Environment and Assessing the Risks of Material Misstatement).
- ❑ No amendment is necessary to reflect the issuance of SAS 143 (Auditing Accounting Estimates and Related Disclosures) and SAS 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
- ❑ Added a requirement to address the auditor's responsibility in adapting and applying the requirements relating to control activities component in a compliance audit
- ❑ Added requirements related to identifying and assessing risks of material noncompliance and documentation of identified and assessed risks of material noncompliance

SAS No. 149

At a Glance

- ❑ Provides a risk-based approach to planning and performing a group audit.
- ❑ Former AU-C section 600 required the group engagement team to identify significant components at which to perform audit work
- ❑ SAS 149 directs the group auditor to use professional judgement in determining the components at which to perform procedures based on assessed risks
- ❑ Introduces the term ‘referred-to’ auditor and defines it as an auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor’s report on the group financial statements. The definition also indicates that a referred-to auditor is not a component auditor, and accordingly, is not part of the engagement team for a group audit.
- ❑ Also revises the definition of the term component auditor to indicate a component auditor is part of the engagement team. This change is intended to improve audit quality by making the group engagement partner responsible for the direction and supervision of component auditors and review of their work.

Statements on Quality Management Standards (SQMS)

- ❑ 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*
- ❑ SSAE No. 23, *Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management*
- ❑ 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

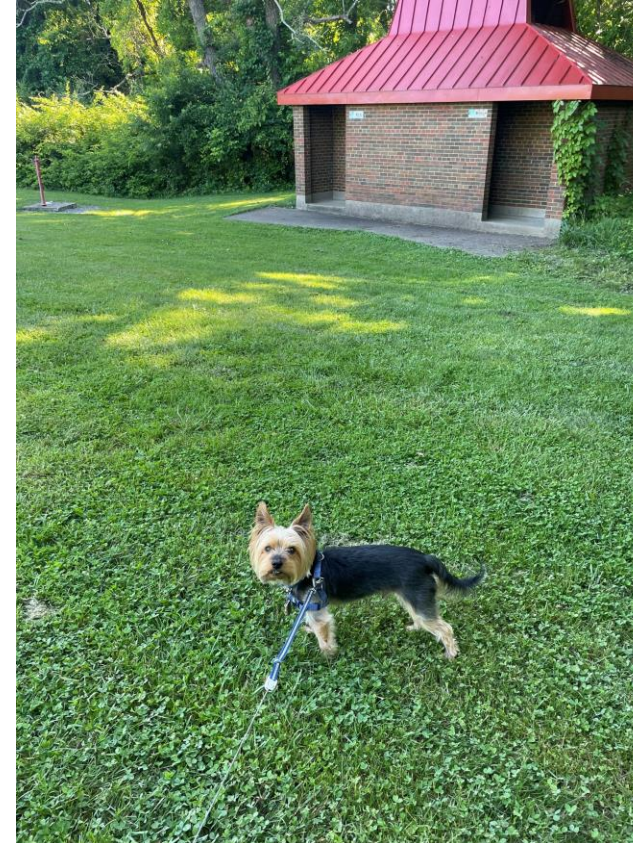
SSAE No. 23

Amendments to the Attestation Standards

- ❑ Amends SSAE Nos. 18, 19, 21, and 22
- ❑ The most significant change is the deletion of the defined term “other practitioner” and replacing it with two new terms, “participating practitioner” and “referred-to practitioner.”
- ❑ The performance and reporting requirements were also revised to differentiate between the types of other practitioner.

Resources

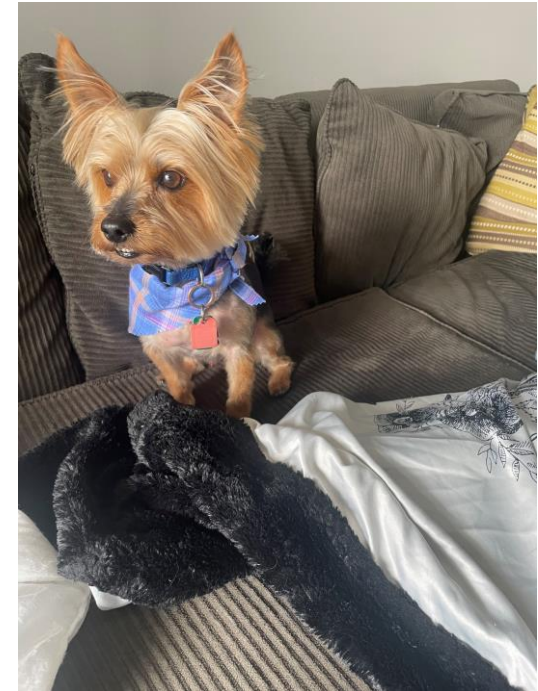
- ❑ <https://us.aicpa.org/research/standards/auditattest>
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- ❑ www.fasb.org
- ❑ AICPA “At a Glance” series



Questions?



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