

## A BIWEEKLY RESOURCE FOR RECENT FINANCIAL REPORTING DEVELOPMENTS

### AUDITING

#### ASB issues exposure draft on auditor reporting

The Auditing Standards Board (ASB) has monitored the auditor reporting projects of the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board, as well as the IAASB's project addressing the auditor's focus on financial statement disclosures. After considering the implications of these projects on audits of nonissuers, the ASB recently proposed changes to U.S. generally accepted auditing standards as described in an [Exposure Draft](#), which includes the following proposed Statements on Auditing Standards (SAS) that would supersede AU-C sections 700, 705 and 706:

- *Forming an Opinion and Reporting on Financial Statements* – This proposed SAS includes some changes to the format of and verbiage used in the auditor's report issued for audits of nonissuers. For example, the auditor's opinion would be required to be presented first in the auditor's report, and the descriptions of the responsibilities of management and the auditor would be expanded. The auditor's report also would be required to include an affirmative statement about the auditor's independence and fulfillment of other ethical responsibilities.
- *Communicating Key Audit Matters in the Independent Auditor's Report* – Communication of key audit matters (KAMs) would not be required for audits of nonissuers. However, if the terms of the audit engagement include reporting KAMs, the requirements of this proposed SAS would apply.
- *Modifications to the Opinion in the Independent Auditor's Report* – The main changes in this proposed SAS relate to the form and content of the auditor's report when the opinion is modified.
- *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* – The principal changes resulting from this proposed SAS relate to clarifying the relationship between emphasis-of-matter paragraphs and the communication of KAMs in the auditor's report. This proposed SAS also requires the auditor to use an appropriate heading for an emphasis-of-matter paragraph that includes the term "Emphasis of Matter."

If finalized, the Exposure Draft also would result in amendments to other existing AU-C sections, including the following, among others:

- If, after considering identified conditions or events and management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains, the auditor would be required to include a separate section in the auditor's report under the heading "Substantial Doubt About the Entity's Ability to Continue as a Going Concern" instead of an emphasis-of-matter paragraph.
- The auditor would be required to communicate with those charged with governance about the significant risks identified by the auditor as part of the required communication of an overview of the planned scope and timing of the audit.
- Certain proposed amendments are intended to focus the auditor's attention on disclosures earlier in the process of auditing financial statements.

If finalized, the proposed SASs and amendments would be effective no earlier than for audits of financial statements for periods ending on or after June 15, 2019. The proposed SAS is available for comment until May 15, 2018.

### Proposal regarding other information in annual reports

The Auditing Standards Board (ASB) has a strategic objective of converging its standards with those of the International Auditing and Assurance Standards Board. Accordingly, the ASB recently used International Standard on Auditing 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, as the basis for a recent proposed Statement on Auditing Standards (SAS), [The Auditor's Responsibilities Relating to Other Information Included in Annual Reports](#). If finalized, the proposed SAS will supersede AU-C section 720, *Other Information in Documents Containing Audited Financial Statements*, and will result in the following changes, among others, to that standard:

- Clarification of the documents that are within the scope of the standard by defining *annual report*
- The addition of a requirement for the auditor to determine, through discussion with management, and obtain management's written acknowledgment regarding, which document or documents constitute the annual report
- Clarification and expansion of the auditor's responsibilities with respect to other information
- The addition of a requirement that the auditor reference the other information in the auditor's report on the financial statements

If finalized, the proposed SAS will be effective for audits of financial statements for periods ending on or after June 15, 2019. The proposed SAS is available for comment until May 15, 2018.

### Proposed omnibus Statement on Auditing Standards

In developing and updating auditing standards, the Auditing Standards Board (ASB) considers, among other matters, the standards of other standard setters, such as the Public Company Accounting Oversight Board (PCAOB). Accordingly, the ASB has reviewed recent PCAOB auditing standards to consider whether the standards include material that, if included in the requirements or application material of U.S. generally accepted auditing standards, would enhance audit quality for audits of nonissuer financial statements in an effective and efficient manner. As a result, the ASB recently issued a proposed Statement on Auditing Standards (SAS), [Omnibus Statement on Auditing Standards – 2018](#), which includes the following proposed amendments, among several others:

- Additional requirements to communicate to those charged with governance the auditor's views relating to the entity's significant unusual transactions, and the potential effects of uncorrected misstatements on future-period financial statements

- Enhanced requirements to identify previously unidentified or undisclosed related parties or significant related party transactions, and enhanced procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the entity
- Required communication to the component auditor about the nature of the entity's relationships and transactions with those related parties in the list of related parties prepared by group management and any other related parties of which the group engagement team is aware
- Requirements for basic procedures for obtaining information for evaluating significant unusual transactions

If finalized, the proposed SAS will be effective for audits of financial statements for periods ending on or after June 15, 2019. The proposed SAS is available for comment until May 15, 2018.

## SEC

### 2017 in review: Insights for audit committees

SEC Chief Accountant Wes Bricker has emphasized the importance of audit committees' work and has spoken about ways to reinforce audit committee effectiveness, including the need for audit committee members to stay current regarding relevant accounting and financial reporting developments. In [2017 in review: Insights for audit committees](#), we highlight a few developments affecting audit committees:

- The new auditor reporting model
- New accounting standards
- Pay ratio disclosures
- The audit committee's role in cybersecurity matters
- Increased voluntary reporting by audit committees
- Tax reform

### Revenue recognition: Amendments to SEC paragraphs of FASB ASC

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2017-14, [Income Statement – Reporting Comprehensive Income \(Topic 220\)](#), [Revenue Recognition \(Topic 605\)](#), and [Revenue from Contracts with Customers \(Topic 606\)](#). This ASU provides amendments to certain SEC paragraphs within the FASB's Accounting Standards Codification (ASC) reflecting the following updates to the SEC's interpretive guidance regarding revenue recognition as a result of the issuance of ASU 2014-09, [Revenue from Contracts with Customers \(Topic 606\)](#):

- [Staff Accounting Bulletin \(SAB\) No. 116](#), which brings existing SEC staff guidance into conformity with the FASB's adoption of and amendments to Topic 606, "Revenue from Contracts with Customers" of the FASB's Accounting Standards Codification (ASC). SAB 116 modified SAB Topic 13, [Revenue Recognition](#), and SAB Topic 8, [Retail Companies](#), to note these Topics are no longer applicable. SAB 116 also modified Section A, "Operating-Differential Subsidies," of SAB Topic 11, [Miscellaneous Disclosure](#).
- Interpretive Release No. 33-10402, [Commission Guidance Regarding Revenue Recognition for Bill-and-Hold Arrangements](#), which updates SEC guidance for bill-and-hold arrangements by stating that, upon adoption of ASC 606, registrants no longer should refer to the criteria in Accounting and Auditing Enforcement Release No. 108, [In the Matter of Stewart Parness](#), to recognize revenue for such arrangements.

- Interpretive Release No. 33-10403, [Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement into the Pediatric Vaccine Stockpile or the Strategic National Stockpile](#), which updates related 2005 guidance and states that, consistent with ASC 606, manufacturers should recognize revenue for vaccines placed into the Vaccines for Children Program and the Strategic National Stockpile.

The above updates apply upon a registrant's adoption of ASC 606, and until such time, registrants should continue referring to the extant guidance. Implementation of ASC 606 must occur no later than the quarter and year beginning January 1, 2018, for public entities with a calendar year end (with a limited exception for certain public business entities). For all other entities with a calendar year end, implementation must occur no later than the year ending December 31, 2019.

Information regarding the FASB's new revenue recognition guidance is available in our [Revenue Recognition Resource Center](#).

## PUBLIC SECTOR

### Federal hurricane guidance

The Office of Management and Budget (OMB) has issued a memorandum, [Administrative Relief for Grantees Impacted by Hurricanes Harvey, Irma, and Maria](#), which identifies actions that federal agencies may take to relieve short-term administrative, financial management and audit requirements under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for grantees in counties or parishes where a major disaster has been declared because of the hurricanes. Such actions include certain procurement requirement exemptions, reporting extensions and extensions of currently approved indirect cost rates. The memorandum also instructs agencies to allow grantees to delay the completion and submission of Single Audits for 12 months beyond the normal due date.

It is important to note that, on its own, this memorandum does not provide any relief to affected grantees. Instead, each federal agency will consider the guidance in the memorandum and then issue its own guidance as deemed appropriate by the agency and to the extent permitted by law. Grantees should confer with funding agencies for more information. Appendix III, "Federal Agency Single Audit, Key Management Liaison, and Program Contacts," of the [2017 OMB Compliance Supplement](#) includes contact information for each agency.

Also, the U.S. Department of Homeland Security Office of Inspector General issued [Audit Tips for Managing Disaster-Related Project Costs](#) to assist recipients and subrecipients of Federal Emergency Management Agency (FEMA) disaster assistance grants in: (a) documenting and accounting for disaster-related costs; (b) minimizing the loss of FEMA disaster assistance funds; (c) maximizing financial recovery; and (d) preventing fraud, waste and abuse of disaster funds. This guidance is effective for all emergencies and major disasters declared on or after April 1, 2017.

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