AUDITING

Proposed amendments to the description of the concept of materiality

The Auditing Standards Board’s (ASB) current definition of materiality is consistent with the definition of materiality used by the International Accounting Standards Board and the International Auditing and Assurance Standards Board. In August 2018, the Financial Accounting Standards Board amended its definition of materiality to be consistent with the U.S. judicial system, the SEC and the auditing standards of the Public Company Accounting Oversight Board. The ASB believes it is in the public interest to eliminate inconsistencies between the definition of materiality in AICPA Professional Standards and the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. Therefore, the ASB recently proposed amendments to the materiality concepts discussed in existing auditing and attestation standards.

Materiality is described in existing AU-C section 320 as:

“Misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users that are taken based on the financial statements.”

If finalized, the proposed amendments would change that description to:

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

If issued as final, the proposed Statement on Auditing Standards would be effective for audits of financial statements for periods ending on or after December 15, 2020, and the proposed Statement on Standards for Attestation Engagements would be effective for practitioners’ reports dated on or after December 15, 2020.

The Exposure Draft is available for comment until August 5, 2019.

ACCOUNTING

FASB Staff Q&A regarding the accounting for grants

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. Recently, the FASB issued a Staff Q&A regarding
certain aspects of the accounting for grants when implementing ASU 2018-08. Among other matters, the Q&A addresses (a) whether, in applying the limited discretion indicator, budgets and provisions around them in grants create barriers to entitlement, and (b) to what extent mandatory cost-sharing requirements in grants are analogous to matching or challenge grants when determining whether and when to recognize grant revenue.

RSM’s whitepaper includes more information regarding the changes to the accounting for grants and contributions made and received as a result of the issuance of ASU 2018-08.

PUBLIC SECTOR

Proposed guidance: Public-private and public-public partnerships

The Governmental Accounting Standards Board recently issued an Exposure Draft, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The Exposure Draft defines public-private and public-public partnership arrangements (both referred to as PPPs) as arrangements in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction.

Some PPPs meet the definition of a service concession arrangement (SCA), and for those PPPs, the Exposure Draft carries forward the requirements in Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. For PPPs that meet the definition of a lease, but not the definition of an SCA, Statement No. 87, Leases, would apply.

For PPPs that are not SCAs and are not leases, a transferor generally would be required to recognize an asset for the underlying PPP asset and a deferred inflow of resources for consideration received or to be received as part of the PPP. A governmental operator would be required to report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA.

The Exposure Draft also provides guidance for accounting and financial reporting for availability payment arrangements (APAs) in which a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The Exposure Draft would be effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Exposure Draft is available for comment until September 13, 2019.