AUDITING

Our commitment to audit quality and professional excellence

RSM US LLP recently published *Our commitment to audit quality and professional excellence*. This audit quality report is intended to provide a window into how RSM US LLP promotes and monitors audit quality. The report provides information on our audit practice, including various aspects of our system of quality control such as those related to leadership responsibilities, relevant ethical requirements, client acceptance, engagement team management, engagement performance and monitoring.

SEC

Effects of the coronavirus on financial reporting

U.S.-listed companies (including companies based in the U.S., companies based in China and companies based outside of the U.S. but not based in China) may have significant operations in China and other jurisdictions, such as Japan and Singapore, that may be affected by the coronavirus. In addition, companies that do not themselves have operations in China or other potentially affected jurisdictions may depend on companies that have operations in those jurisdictions, including, for example, as suppliers, distributors and (or) customers. On February 19, 2020, the SEC and the Public Company Accounting Oversight Board (PCAOB) issued a joint statement regarding certain matters, including financial reporting considerations related to the coronavirus.

The SEC reminded issuers of its general policy to grant appropriate relief from filing deadlines in situations where, in light of circumstances beyond the control of the issuer, filings cannot be completed on time with appropriate review and attention. Issuers and their advisors are encouraged to contact SEC staff regarding any need for relief or guidance. The staff will determine whether to provide additional guidance and relief as appropriate for affected parties.

The SEC also emphasized the need for issuers to consider financial statement disclosure related to the potential effects of the coronavirus, including disclosure of subsequent events in accordance with the guidance in Financial Accounting Standards Board Accounting Standards Codification Topic 855, *Subsequent Events*. If issuers have questions regarding the reporting of matters related to the potential effects of the coronavirus, they are encouraged to contact SEC staff.

In addition, the PCAOB discussed the impact that potential exposure of companies to the effects of the coronavirus could have on audit quality, including, for example, audit firm access to information and company personnel. Issuers are encouraged to work with their audit committees and auditors to ensure
their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements.

Credit losses: FASB codifies SAB 119

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2020-02, Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842). Among other provisions, this ASU added SEC Staff Accounting Bulletin (SAB) No. 119 to the FASB’s Accounting Standards Codification. SAB 119 aligned the SEC’s interpretive guidance with Topic 326 by adding Section M to Topic 6 of the SAB Series. Topic M discusses the following matters related to the accounting for loan losses by registrants engaged in lending activities subject to Topic 326:

- Measuring current expected credit losses
- Development, governance and documentation of a systematic methodology
- Documenting the results of a systematic methodology
- Validating a systematic methodology

Leases: Amendment to SEC paragraph of FASB ASC

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2020-02, Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842). Among other provisions, this ASU adds a note to an SEC paragraph of the FASB’s Accounting Standards Codification stating that the SEC staff would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity’s filing with the SEC adopting Topic 842 for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Those dates are consistent with the effective dates for Topic 842 as amended in ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.

White House proposes to consolidate PCAOB into SEC

The Fiscal Year 2021 Budget of the United States Government proposes to consolidate the functions and responsibilities of the Public Company Accounting Oversight Board (PCAOB) into the SEC beginning in 2022. The justification stated for this proposal is that consolidating the PCAOB within the SEC will reduce regulatory ambiguity and duplicative statutory authorities. The SEC already is charged with investigating federal securities law violations and has the authority to impose disciplinary action, including for public accounting firms that also are overseen by the PCAOB.

ACCOUNTING

Proposal: Accounting for contributed nonfinancial assets

The Financial Accounting Standards Board (FASB) recently issued a proposed Accounting Standards Update (ASU), which, if finalized, would require a not-for-profit entity to present contributed nonfinancial assets (i.e., gifts in kind) in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The term nonfinancial asset includes fixed assets, use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets.
A not-for-profit entity also would be required to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets. For each category of contributed nonfinancial asset received, a not-for-profit entity would be required to disclose:

- Qualitative information about whether the contributed nonfinancial assets were or are intended to be either monetized or utilized during the reporting period and future periods. If utilized, a not-for-profit entity also would be required to disclose a description of the programs or other activities in which those assets were or are intended to be used.

- A description of any donor restrictions associated with the contributed nonfinancial assets.

- The valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant, in accordance with the requirements in Topic 820, “Fair Value Measurement,” of the FASB’s Accounting Standards Codification.

The proposed ASU, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, is available for comment until April 10, 2020.

PUBLIC SECTOR

GASB issues omnibus statement

The Governmental Accounting Standards Board recently issued Statement 92, Omnibus 2020, which included guidance addressing various accounting and financial reporting issues. The requirements of the statement addressed the following, among other matters:

- The effective date of Statement 87, Leases, and Implementation Guide No. 2019-3, Leases, to address concerns regarding interim financial reports

- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit plan

- The applicability of the following to reporting assets accumulated for postemployment benefits:
  - Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended
  - Statement 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended

- The applicability of certain requirements of Statement 84, Fiduciary Activities, to postemployment benefit arrangements

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

The requirements related to the effective date of Statement 87 and Implementation Guide No. 2019-3, and those related to certain other requirements became effective upon issuance. The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020. The requirements related to the application of Statement 84 and those related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition and certain other requirements are effective for reporting periods beginning after June 15, 2020. Early application is permitted by topic.
REVIEWS, COMPILATIONS AND PREPARATIONS

Revisions to SSARS issued

The AICPA Accounting and Review Services Committee recently issued Statement on Standards for Accounting and Review Services (SSARS) 25, *Materiality in a Review of Financial Statements and Adverse Conclusions*, which includes the following revisions, among several others:

- The revision of the definitions of the following terms in AR-C section 60 so as to be consistent with the definitions in Statements on Auditing Standards: *financial statements*, *designated accounting standard-setter*, *general purpose financial statements*, *general purpose framework*, *special purpose financial statements* and *special purpose framework*

- The addition of a requirement for the accountant to inform management of the reasons for withdrawal from a preparation engagement

- The addition of the definition of *limited assurance* in AR-C section 90 as follows: “A level of assurance that is less than the reasonable assurance obtained in an audit engagement but is at an acceptable level as the basis for the conclusion expressed in the accountant’s review report.”

- The addition of an explicit requirement in AR-C section 90 for the accountant to determine materiality for the financial statements as a whole and to apply this materiality in designing the procedures and evaluating the results obtained from those procedures

- An addition to AR-C section 90 that if the accountant determines, or is otherwise aware, that the financial statements are materially misstated, the accountant should express one of the following:
  - A qualified conclusion, when the accountant concludes that the effects of the matter or matters giving rise to the modification are material but not pervasive to the financial statements
  - An adverse conclusion, when the effects of the matter or matters giving rise to the modification are both material and pervasive to the financial statements

The amendments are effective for engagements performed in accordance with SSARS for periods ending on or after December 15, 2021.

INTERNATIONAL

Updated comparisons of U.S. GAAP and IFRS on a variety of topics

While the U.S. Securities and Exchange Commission does not permit the use of International Financial Reporting Standards (IFRS) by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or these companies may wish to compare themselves to such multinational entities or expand internationally through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company’s financial statements. To start this process, we have a series of comparisons dedicated to highlighting significant differences between U.S. generally accepted accounting principles (GAAP) and IFRS. We recently updated the comparisons on the following topics:

- Business combinations
- Consolidations
- Earnings per share
- Cash flow statements
- Contingencies and provisions
- Foreign currency matters
• Impairment of long-lived assets
• Intangible assets other than goodwill
• Property, plant and equipment and investment property
• Segment reporting
• Subsequent events

Access these comparisons at our U.S. GAAP vs. IFRS comparisons series.

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