

CALCPA
APAS Morning Meeting Minutes
May 16 - 17, 2109

May 16th – Morning

- A) Introductions – TV brought in
- B) Approval of prior meeting minutes
- C) Introduction of Avaha Goldman
- D) Avaha’s presentation (see slide)
 - SAS 134 (after 12/15/2020, no early adoption/implementation)
 - 1. New opinion position- first paragraph (prescriptive)
 - 2. Key Audit Matters (KAMs)
 - a) § 701 (not mandatory)
 - b) Only required when engaged to report
 - c) Does not replace “Emphasis of Matter” (EOM)
 - d) New responsibilities in report (i.e. going concern) for auditor and auditee.
 - 1) Better understanding of “what auditors are doing”
 - 2) Audits § 703 § 103(a)(b)(c)

BREAK 10:30 – 10:45

- 3. SSAF Revisions (18)
 - a) Procedural and representation changes
 - b) Limited Assurance Engagement (proposed) yikes!
 - c) Audit evidence standard: Reliability Sufficiency Relevance
 - d) Instead of Quantity, Persuasiveness!
 - e) Analytics
 - f) Materiality definition changes
 - g) Estimates
 - h) Quality control taken
 - i) Risk assessment (skipped)
 - j) Quality Control Standards
 - 1) Quality Management
 - 2) For firms – Themselves (Really??)
 - 3) Monitoring processes
 - 4) Transparency reports
 - 5) “I/we” change (avoid using without revision)
 - 6) Squashes
 - 7) ED(?) Proposal – ASB will converge with IASB
 - 8) EVP EQCR ISQCI ISA 220 ISOC2 (OH SH_T)

May 16th – Afternoon

Materiality issue, IAASB Exposure Drafts and their very significant changes and our ability to respond is limited and perhaps have a zoom meeting for those that are interested. Howard has prepared an initial response to the QC stuff and has not been circulated and Matt and Nancy are in the process of adding their own changes to that. Materiality Concept and any problems with being proposed. Changing language to be same as the legal language and changing “could” to “would”. Thoughts that it will not make any changes in practice? Discussion followed... Thoughts were that it would not be a big change and easy to agree.

ICQMs

This is something that will impact comprehensive changes as they will affect our quality controls. Question came as to what the IAASB authority has on this body? The discussions included that this affects us as it the AICPA is a member of the IAASB and will eventually become out standard. With that and the understanding that people need to get through it and the due date is in July. One or two zoom meetings to address these EDs. These EDs are new system to evaluate a firm’s quality management. Added information and communication and risk assessment component to the current 6 elements that are in the current US standards. There is going to be overlap, and the process of going through the analysis will be extensive and will need to be scalable for smaller firms.

Questions asked – Quality risk regarding public work v. private work and the level of documentation and work needed. The application of the current standards are deficient and looking to improve the implementation and the quality of the firms QC standards. The standards are working to make the new EDs scalable.

The level of effort to implement will be greater for those that take a checklist approach than those that QC systems are already in compliance with the quality control. There were discussions regarding firms being in the QC Groups of the AICPA and how firms that are committed to quality are more likely to be part of those groups than those that are not. Also discussions that just because we require a new document does not equate to improved commitment to quality control.

Matt’s overview comments from Howard’s review

- 1) General concern of scalability
- 2) Recognition that 18 months is inadequate even a 24 to 36 month implementation that there needs to be a robust plan to assist in implementation
- 3) Firms that continue to take quality seriously, those that do not will it kick start them into gear or there will not be an appropriate benefit to the cost of implementing this standard.
- 4) Regarding scalability – this is scalable just what resources will be available to help the smaller firms make is scalable?
 - a. Currently there are specific considerations for small practitioners in the current standards.

Discussions regarding how some are thinking about quality control and do not have the time to do it and put it at the bottom of the stack. There is going to be an impact on smaller firms, forcing them out of performing audits.

Nancy reiterated that the public interest comes first. When we first went through the quality of audit before it discussed auditor skepticism. The real problem is lack of independence in the entire audit model.

Discussion regarding having small firms and if they can do a decent job to perform an audit. If we come across in our comments about being a jack of all trades, but we need to comment on you are making a commitment and what the commitment is.

If you elect to be a CPA that will do audits, then you are electing to spend significant time and money (recourses) to maintain a high standard of quality control.

ECR with certain clients that have significant to the general public – discussions around this. Matt's thought is what is considered to be significant. There is a cost to an EQR. One of the purposes of the committee is to educate the members. Over the course of three years we have 2,400 system reviews. If we can write good articles and if they care they will find it if they don't. Working out our objective to help CPAs however it's really up to the practitioners to learn and educate themselves.

Mark Willie – all peer reviewers have to come to mandatory meeting and perhaps we need to require auditors.

Do all network firms actually understand and comply with the network requirements. Additional comment Howard to specifically require the EQR to be discussed at time of planning.

ICQMII is more difficult to make it scalable. Places undue burden on smaller firms. ISA 220 – what is the engagement partners responsibility?

After subsequent meeting then we can decide what the responses will be. Due to the significance of this and likelihood.

Dave Wilson, Nancy Nix, Julia Cox, Paul Peterson, Joe Bunker, Stu, Harden, Claus Agger-Nielsen, Gail Anikouchine, Howard Sibelman and Matt Lombardi

ASU – need for professional skepticism and more granularity and to use technology. Also, making more a direct link risk standards. Any interest in anyone taking first crack at a comment letter regarding this – no immediate takers regarding this. Nancy – tomorrow will discuss sub committees and how to deal with some of the thinks this summer.

ASU on audit evidence – did away with need for confirmations. Also that oral confirmations can be sufficient, however Matt felt that it was not as a person could deny it. Willing to participate in preliminary discussion Don, Pfluger, Paul Peterson, Joe Bunker, Matt Lombardi, David Wilson, John Lacey.

CPA AICPA and NASBA – discussion about having two roots to become a CPA which was shut down and now a new approach. Candidates with different degrees with

accounting course work with technology and accounting. A technology needs degrees with accounting and visa versa. Regarding audit evidence we are likely to be auditing databases as we move forward.

FASB Matters – Paul Peterson

Proposed ASU: Income Taxes (Topic 740), Disclosure Framework – Changes to the Disclosure Requirement for Income Taxes – came out in March – focus is mostly on disclosing income from containing operations before income tax etc. How much is subject to foreign operations – SOCF income taxes paid in state, federal and foreign. Unrecognized tax benefits for public entities. Changes in unrecognized tax benefits. Income tax rate reconciliation, showing separate amounts of 5% or more for public business (which they are doing already).

10 Questions they had: Improved disclosure? Eliminations be good information? Etc. Questions were being discussed – Disclosing income in jurisdictions before disclosure. Evaluates management’s ability to report the income in the lowest tax jurisdiction. Perhaps more insight into what is your effective tax rate.

Is it more work than it is worth?

Having information timely from foreign sources may be an issue.

Are there any more disclosures that we may want to suggest? Laughter – None

May ED on Topic 740 – Mainly incremental disclosures for public companies vs. privately held companies – it is disaggregating the valuation allowance that is released as well as the current valuation allowances. The users want more detail around the change

Communications Received from Helen Munter (former PCAOB Director of Inspections) – frustration from the receipt of the email after the firms PCAOB review.

Frank O’Brien, Aleks Zabreyko & Stu Harden

EITF Related P-ASU: Business Combinations (Topic 805) – Revenue from Contracts with Customers – Recognizing an Assumed Liability – opposed the position in the 2017 letter.

ITC: Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805 –

P-ASU: Proposed Disclosure Improvements – SEC come up with amendments to FASB standards that effect public and private companies. Would raise the threshold for private companies. EPS with illustrations, Segment reporting with references to products and services; Debt disclosure of unused lines of credit and the weighted average interest rate for all the debt – private companies do not support this disclosure. The discussion of the

group was why – doesn't seem relevant. Considerable excess of the borrowers (really had difficult time hearing frank)

He basically read page 6 and 7 of the Proposed ASU on disclosure improvements and the questions. Unfortunately I could not follow him sorry... practically inaudible.

All should / most should be applicable to public companies and not private companies. Give a year to apply new disclosures.

May 17th – Morning & Afternoon

Nancy Rix called the meeting together at 9:02 a.m.

The meeting in time and location for February 2020 was discussed. Nancy indicated that the number for virtual meetings will be reduced to one a year and will provide an update on this at the August 2019 meeting.

P-ASU – Business Combination (Topic 805)

Revenue from Contracts with Customers – Recognizing an Assumed Liability- Frank O'Brian

Frank discussed the comment letter sent on April 29, 2019 in which the committee responded to the 7 questions. The Committee did request more time for the implementation to assist in education.

Frank mentioned that Topic 19a (Financial Instruments) and Topic 19b (Intellectual Property) are not yet ready for a response. Nancy said these items should be ready to discuss at the June 2019.

Amendments to ASC 805 to incorporate ASC 606 for revenue contracts – Aleks Zabreyko

Aleks discussed Business Acquisitions and how to approach customer contracts. There was confusion of the Board on how to determine fair value of this deferred revenue. They decided it would be best to reach out the accounting community for input. Discussion on the definition of “level of selling effort” and the materiality of it. It was noted that auditing the accounting for “level of effort” might prove to be difficult. Discussion of the legal definition of a contract and the 606 description.

Aleks proposed these three alternatives:

1. Make no change and report the “level of effort” aka hair cut to deferred revenue.
2. Do what FASB considered. Record as asset (for contracts in which you have not been prepaid) to reduce revenue as you start collecting on the

contracts. The asset (level of selling effort) gets booked on the day of acquisition.

3. Carry over of 606 asset and liability. No asset and no deferred revenue. There was a quick show of hands and it appears that the committee favors this option.

Aleks stated that he will draft a letter for circulation and general comments from the Committee.

Aleks briefly went over the GASB guidance on treatment of current expected credit losses. This is applicable to the purchase of below market loans. FASB issued a ASU to allow fair value elections for those deteriorating receivables.

Break 10:09 a.m. -10.25 a.m.

SSARS Update – Gail Anikouchine

SSARS Exposure Draft. ASB is waiting for updated materiality definition to be included. They are also looking into limited assurance reporting and discussing including materiality in review as well as adding an adverse opinion option. Comments on the draft are November 15th and the expected effective date will be on or after July 15, 2021. Some of the key points are as follows:

- Define Financial Statements – The ASB is trying to be consistent.
- Withdrawal from Preparation of Financial Statements – Must provide reasons to management.
- Define limited assurance and review evidence to come to a conclusion.
- Requirements for professional skepticism in planning and expanded definition.
- Requirements to determine materiality and how to apply it to the design of procedures.
- Requirements to ask management about material commitments, related party transaction and non-monetary transactions.

Other SSARS discussion. Discussion on preparation services and if it is applicable only with an engagement letter or is it implied by producing financial statements. The Committee noted may differences of opinion on this manner. Some indicated that if you are not engaged (no engagement letter) for a preparation services, then it falls under accounting services work. Others indicated it was more of form of the services dictates it to be a preparation service. Nancy indicated that a more definitive definition and answer is needed.

State Assembly Bill 1181– Matt Lombardi

Matt gave an overview of the e-mail from Jason Fox, CalCPA and the deworm pill situation. The committee discussed the definition of a gift-in-kind and the value of such items when it comes to financial reporting. Fair value should be determined after all factors

have been considered and not just the heightened inflated price that is found. The Committee discussed several aspects of this including:

- Fair value of the exit price (principal market or most advantageable market)
- If the donor puts restrictions on used of the drug to certain geographical areas.
- Fair value should be based on what the charity would have had to pay if they had to buy it themselves using open market pricing or any discount they would be entitled to.
- The pricing of the medication could also depend on the need or scarcity of the drug.
- It was noted that there is a disconnect as there really is not exit price as there is no “sale” of these drugs.

Matt indicated that we are not commenting on the bill, but merely getting back to Jason Fox. Matt is to communicate that the Attorney General should not define GAAP. Furthermore, there might need clarification on this matter in terms of definitions.

Lunch 12:03 p.m. to 1:01 p.m.

Peer Review Update – Linda McCrone

Linda discussed issues related to the electronic peer review system which was introduced in May 2017. Some of the problems include massive updates and the fact that the Peer Review Board was unaware that the system was not working properly. Linda mentioned that due to some of the rules and standards, peer reviews are getting more and more expensive. The enhanced oversight is also making peer review firms leave the market. Linda gave the following recommendation for using the system:

- Make sure the Managing Partner in the system is correct and the peer reviewer is correct.
- Make sure you monitor when it is due and the notification are not going to you spam e-mail.
- Make sure you know when yours is due and make sure you and your peer reviewer plan accordingly to make the deadline.

Communication Update and Articles– Nancy Rix

Nancy mentioned that need to get more involved on the international side and that Howard Sibelman has volunteered to be the acting chair on the international side, but he will need some help.

Nancy also recommended that other committees need help and the need for enhanced recruitment efforts. It was discussed to start a subcommittee made up of senior members to recruit individuals that would be a help to the committee. This could be based on a formal criteria on participation (more than a couple times a year) and a criteria for experience. Nancy recommend that we create a target list. Robert Jones, Joe Bunker and John Lacey volunteered to help. Howard and Matt will also assist and come back in August with some names and ideas.

Nancy gave an update on the A&A Conference Committee. She is trying to get a town hall.

Other Committee Matters

Matt discussed the review draft of crypto currencies and mentioned that the Big 4 guides asserted that crypto currencies meet the definition of intangible asset. Discussion that fair value should be used as it is similar to a foreign currency. Matt mentioned that there is a white paper that will probably morph into a technical practice aide. Some items noted about crypto currencies:

- If the price drops, you cannot write it back up.
- If it is held by a 3rd party, who really owns it?
- Questions on if it has an indefinite life can it really be treated as an intangible asset?

Meeting Adjourned at 2:20 p.m.