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THE PPC
ACCOUNTING AND AUDITING UPDATE

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AICPA Proposes Revisions to Audits of Group Financial Statements

In March 2022, the AICPA's Auditing Standards Board (ASB) issued a proposed Statement on Auditing Standards that would supersede AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and amended numerous other auditing, attestation, and quality management standards, including certain proposed standards. The proposed SAS is intended to strengthen the auditor's approach to planning and performing group audits, as well as the overall quality of such audits.

In addition, the proposed standard converges with recent standards of the International Auditing and Assurance Standards Board (IAASB) and considers proposed amendments to standards of the Public Company Accounting Oversight Board (PCAOB) that address audits of group financial statements.

Key Aspects of the Proposed Standard

The proposed standard—

- Reinforces and clarifies that all AU-C sections, when applicable, should be applied to a group audit and provides stronger linkage to other AU-C sections.
- Provides a subsection in each section of the proposed standard detailing component auditor requirements and helping clarify and emphasize needed interactions between the group auditor and component auditor.
- Further clarifies the scope and applicability of AU-C 600.
- Provides a principles-based approach that can be adapted to a broad range of circumstances and is scalable to audits of groups with varying complexity.
- Provides a framework for planning and performing the group audit that emphasizes the identification, assessment, and response to risks of material misstatement, as well as special considerations.
- Includes the term *referred-to auditor*, which is defined as an auditor who audits a component's financial statements to which the group engagement partner determines to

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make reference in the auditor's report of the group financial statements. The referred-to auditor isn't a component auditor or part of the engagement team for the group.

- Clarifies and improves communications and interactions between the group auditor and component auditors.
- Focuses on the importance of professional skepticism.
- Improves the documentation requirements to emphasize the linkage to AU-C 230, *Audit Documentation*, and the documentation requirements of other AU-C sections.
- Explains how the proposed SAS, *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, would apply to manage and achieve audit quality in the group audit.

Proposed Effective Date

If the proposed SAS is issued as final, it would be effective for audits of group financial statements for periods ending on or after December 15, 2026.

Practical Consideration:

The proposed SAS can be found at **https://us.aicpa.org/content/dam/aicpa/research/exposuredrafts/accountingandauditing/downloadabledocuments/20210204a/20220323a-group-audits-ed.pdf**. Comments on the proposed SAS are due by June 21, 2022.

PEEC Approves Updates to the *Code of Professional Conduct*

At its February 2022 meeting, the Professional Ethics Executive Committee (PEEC) approved the following revisions to the *Code of Professional Conduct*.

Responding to Noncompliance with Laws and Regulations (ET 1.170.010 and ET 2.170.010)

PEEC approved two new interpretations of the same name; ET 1.170.010 applies to members in public practice and ET 2.170.010 is directed to members in business.

When a member in public practice or business provides a professional service to a client or employer and encounters or is made aware of noncompliance or suspected noncompliance with laws and regulations, threats to compliance with the "Integrity and Objectivity Rule" (ET 1.100.001 and ET 2.100.001) might exist.

Noncompliance with laws and regulations (NOCLAR) includes "acts of omission, commission, intentional or unintentional, that are contrary to prevailing laws or regulations" that are committed by the client/employer, those charged with governance, or other individuals working for the client/employer.

ET 1.170.010. ET 1.170.010 provides direction to members in public practice who provide either (1) financial statement audit or review services or (2) other professional services when the member becomes aware of credible information about an instance of noncompliance or suspected noncompliance. Generally, in both types of services, the member is required to obtain an understanding of the matter, including its nature and surrounding circumstances. A discussion with the appropriate level of management or those charged with governance should be performed that may clarify the facts, circumstances, and potential consequences.

For members providing financial statement audit services or review services the discussion with management and or those charged with governance should advise them to take appropriate and timely actions regarding the noncompliance matter. In addition, members are required to comply with laws and regulations that may apply, including provisions governing the reporting of noncompliance to an appropriate authority. The interpretation also provides additional requirements regarding required communications when the services relate to a group audit engagement.

For members providing professional services other than financial statement audit services or review services the interpretation provides additional communication requirements when the firm or network firm also provides financial statement audits and reviews for the client. If the member is performing services for a client that isn't a financial statement audit or review client of the firm, the member is prohibited from communicating the noncompliance matter to the client's external auditor, unless required by law or regulation.

The interpretation also addresses the determination of whether the member should withdraw from the engagement, as well as documentation considerations.

ET 2.170.010. ET 2.170.010 provides guidance to members in business who are (1) senior professional accountants or (2) other accountants when they encounter noncompliance or suspected noncompliance. In all cases, the member has a responsibility to obtain an understanding of the legal and regulatory provisions

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The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP, CGMA

E-waste and Your Firm

There is a growing amount of "buzz" in firms around environmental, social, and governance initiatives, commonly denoted as ESG. Most of the ESG discussion in firms today is focused on potential service and reporting opportunities, which to many smaller firms seems a long way off. However, the reality is that environmental issues impact everyone, and taking steps to preserve the environment benefits not just future generations, but business as well.

Developing a comprehensive ESG service offering or program within an accounting firm would definitely be a significant undertaking, but firms can garner ESG awareness and begin directly addressing the issue by simply minimizing the impact of their own electronic waste on the environment. Taking such action has the potential to not only promote the firm as a socially conscious community leader, but also to attract environmentally conscious clients and employees. You can begin by ensuring that firm members understand the problems associated with electronic waste (e-waste) and providing resources and action steps to properly deal with its disposal.

Understanding the E-waste Situation

The reality today is that consumers are purchasing even more electronic devices, often disposing of still functioning equipment so they can be upgraded to the latest enhanced features. Many of these newer electronic devices have shorter useful lives than their predecessors and are being replaced on a faster schedule. Consequently, more e-waste is being created (e.g., smart phones purchased every two years).

According to a 2020 United Nations Global E-waste report, a record 53.6 million metric tons or e-waste was generated in 2019. This represented a 21% increase over the previous five years, and the report stated that the volume was expected to double again within 16 years. The report pointed out that only 17.4% of current e-waste was collected and recycled, leaving the vast majority to be improperly disposed of in landfills, dumped in the ocean, or worse, burned. These improper disposal methods had the impact of releasing toxic

chemicals such as lead and mercury into the water supply, which eventually leaches into soil/farmland and into the food supply.

When it comes to e-waste, accounting firms aren't unique and utilize significant amounts of technology that will eventually need to be replaced. Think about the personal computers, servers, monitors, scanners, printers, tablets, phones, and other networking equipment that the firm replaced in the past few years, much of which is probably still stacked in a back room. Remote work has increased the technology footprint in most firms and, in many cases, the number of computers, displays, and peripheral devices being used doubled. The UN reported that such office/business equipment e-waste accounts for approximately 41% of e-waste (with large home appliances making up 31% and personal electronics accounting for the remaining 28%).

Recycled and Toxic Chemicals

While discarded electronic devices contain gold, copper, and rare earth elements that recyclers covet, they also contain toxic chemicals such as lead, arsenic, mercury, cadmium, and beryllium that are extremely harmful to our environment and to humans. When discarded in landfills, these elements slowly give off gases and leach into the soil, polluting not only the local water supply, but also permeating irrigated farmland. This impacts the food supply chain by finding its way into crops and livestock consumed by humans. Burning electronic waste, which is another common form of e-waste processing, is known to release chemicals that can cause severe illness, particularly the brominated fire retardants found in circuit boards that are proven to directly damage the human nervous system and liver.

What You Can Do

Firms can proactively choose to make more informed, sustainable choices that not only reduce e-waste, but indirectly improve production capacity and reduce down time. The following are seven considerations to help your firm reduce e-waste.

- **Educate your personnel.** A good first step is to educate firm personnel on the impact of e-waste on their own community, including understanding local legal disposition requirements. More than half the states and the District of Columbia have specific laws against dumping electronic waste with regular trash.
- **Purchase responsibly.** A second step is to make informed buying decisions. Buying budget-priced equipment often means the technology may have older components or be less robust, which would have to be replaced more frequently, thus creating more e-waste. Mobile monitors are a good example where the budget brands cost less than half that of the industry standard but often break within the first year. Vendors such as Dell, Apple, and Verizon provide e-waste disposal and recycling options and sometimes provide buy-back options or credits towards the purchase of a new device.
- **Upgrade Options.** Before replacing equipment, firms should evaluate if the device can be upgraded with processors, RAM, or peripherals to continue being effective. This option is particularly effective for firms with all applications in the cloud, as the workstation's requirements in this environment are less than if all work was processed locally.
- **Repair/Repurpose.** Before sending any outdated equipment to recycling/destruction, firms should consider if the device can be repurposed (without storage drives) and donated to charitable organizations or schools for those that can't afford a computer. Removing and destroying any disk storage device (HD, SSD, flash drive) that has ever stored any client data is a critical step in this process as erased data can often be reconstituted by those with the proper recovery tools (which could expose the firm to liability).
- **Resell.** Another possible but less utilized option is to resell equipment, so its life is extended before becoming e-waste. Vendors such as **SellYourTech.com**, **Decluttr.com**, **Gizmogo.com**, and even Amazon Trade-In provide cash or credits for used equipment. But as mentioned above, it is critically important to ensure that no firm or client data resides on any of the associated storage media.
- **Recycle.** Finally, research reliable recycle companies that are R2 certified (Responsible Recycling Standard) in the disposal of computer equipment, including certifying the destruction of any storage drives. A quick search alluded to there being a significant percentage of recyclers that don't properly dispose of the equipment that they have been charged with recycling. Many export this equipment overseas where there is no oversight on proper disposal or attempt to repair and resell the equipment (which could theoretically still contain firm data on it) instead of recycling the equipment. Industry organizations such as e-Stewards, **Call2Recycle.org**, and **Earth911.com** provide resources to identify credible local e-waste recyclers.
- **Coordinate.** A final step in properly handling e-waste is to invite employees, family members, and clients to participate in the firm's recycling efforts. Identifying public e-waste drop locations (i.e., Staples or Best Buy for certain electronics) and eDumpster "drop days" organized by local city or county governments can promote awareness of the issue and direct people to responsibly dispose of the e-waste they may have lying around their homes.

Conclusion

Today's accounting firms rely on an ever-increasing amount of technology, which leads to the creation of an ever-increasing amount of electronic waste. Properly disposing of this waste is the responsibility of everyone. Making a conscientious effort to educate employees and having a program to deal with e-waste can help the environment and the firm's stature in the community, their personnel, and potential clients and hires.

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and comply with them, including requirements for reporting matters to appropriate authorities, when applicable. Furthermore, members should consider applicable protocols that exist within the organization regarding reporting noncompliance matters.

Senior professional accountants should obtain an understanding of the noncompliance matter and discuss the matter with their immediate supervisor or higher level of authority, if warranted. The interpretation outlines other steps and actions that may be required, including possible disclosure of the matter to the employer's external auditor, if any, as well as possible resignation from the employer.

In addition, responsibilities for members in business who aren't senior accountants include obtaining an understanding of the noncompliance matter, the nature of the act, and surrounding circumstances. Subject to any existing protocols within the business for addressing noncompliance matters, the member should inform their immediate supervisor or next higher level of authority, when appropriate. In some cases, the member should report the matter to the employer's external auditor or perform further actions.

The effective date of the interpretation is June 30, 2023, with early implementation permitted.

Assisting Attest Clients with Implementing Accounting Standards (ET 1.295.113)

This new interpretation addresses the threats to independence when a member assists an attest client in planning and executing the implementation of an accounting standard. It indicates that threats would be at an acceptable level if the "General Requirements for Performing Nonattest Services" interpretation (ET 1.295.040) were applied.

Such activities by the member would include, among other things, (a) developing and providing training to client personnel on the accounting standard, (b) providing advice and recommendations on the application of the accounting standard, (c) assisting management in determining strategies or methods for the accounting standard implementation, (d) providing observations and recommendations on management's existing project timeline or assisting management in the development of a timeline, and (e) proposing standard journal entries or adjustments to existing entries needed to adopt the accounting standard, subject to client approval.

Threats to independence wouldn't be at an acceptable level if the member performs services such as (a) supervising or leading the client implementation team, (b) setting policy or procedures relating to the accounting standard, or (c) accepting responsibility for the design or modification of internal controls over financial reporting.

The interpretation is effective December 31, 2022, with early implantation allowed.

Unpaid Fees (ET 1.230.010)

PEEC revised ET 1.230.010 to provide—

- Factors to consider when evaluating whether threats to independence are at an acceptable level regarding unpaid fees.
- Safeguards that might be applied to eliminate the threats or reduce them to an acceptable level.

The interpretation notes that threats wouldn't be at an acceptable level if, when the current-year attest report is issued, unpaid fees are significant to the member and pertain to professional services provided more than one year prior to the current-year attest report issue date. However, threats might be reduced or eliminated through safeguards such as partial payments of unpaid fees, obtaining a payment schedule from the attest client, or having an appropriate reviewer who hasn't provided attest services to the client review the attest work before the current year attest report is issued.

The revised interpretation is effective December 31, 2022, with early implementation allowed.

Loans, Acquisitions, and Other Transactions

PEEC approved revisions to certain definitions and interpretations in the *Code of Professional Conduct* pertaining to the effects of various loans with members on independence as a result of converging with amended independence rules issued by the SEC in 2020. Among other things, these changes include—

- Modifying the definition for *beneficially owned* (ET 0.400.06) to also add *beneficial ownership interest* when applying the definition.
- Revising and clarifying the language discussing individuals with which a member may have a loan arrangement that could present a threat to independence. Such revisions affect "Conceptual Framework for Independence" (ET 1.210.010), "Client Affiliates" (ET 1.224.010), "Loans" (ET 1.260.010), and "Loans and Leases With Lending Institutions" (ET 1.260.020).
- Providing additional guidance on acquisitions or other transactions affecting attest clients and affiliates impacting independence. (ET 1.224.010)

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- Modifying "Immediate Family Members" (ET 1.270.010) to include loans of immediate family members and the member when considering materiality as a factor affecting independence.

The revisions are effective December 31, 2022, with early implementation allowed.

Considering Professional Standards Issued after the Date of PPC *Guides*

The preface of PPC *Guides* provides important information regarding the date through which the *Guide* was updated, along with the latest technical pronouncements that were considered in the update. Readers of PPC *Guides* have a responsibility to consider any recent professional standards issued after the date and pronouncements indicated in the preface to tailor and augment the materials in the *Guide* to comply with professional standards.

For example, your *Guide* may include a discussion of a key proposed standard that is important to your client and allows early adoption, if issued as final. What approaches could be followed to determine the status of that proposed standard after the date through which your *Guide* was updated, along with any other recent technical activity of applicable standard setters, such as the FASB, AICPA, PCAOB, GASB, and SEC?

Most standard setters provide current information on recent developments on their websites. The FASB, for example, provides a listing of Accounting Standards Updates (ASUs) issued through the current date, along with proposed ASUs, as well as a listing and description of current projects of the FASB (including a technical agenda). Users can view and download the final and proposed ASUs. You can find these at **www.fasb.org**.

Similarly, the AICPA provides information on recently issued standards, PDFs of the original standards, proposed standards issued by AICPA committees, and current project information. For example, you can locate current standard-setting activity of the AICPA's Auditing Standards Board at **https://us.aicpa.org/research/standards/auditattest/asb**.

While these are valuable resources that practitioners can use to stay current on professional standards developments, a powerful tool that streamlines the process of researching recent professional activity is *Standards Tracker*. *Standards Tracker* is a product available for purchase on Checkpoint. *Standards Tracker* allows the user to determine the latest rulemaking activity of the FASB, AICPA, GASB, SEC, PCAOB, and IASB in one customizable chart using various filters such as date of issuance, standard-setter, effective date, and status.

Practical Consideration:

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