COVID-19 Delays Affecting Adopting Standards

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COVID-19 has undoubtedly impacted us more than we could have imagined. However, standard setters have been understanding, providing relief from adopting standards during this time as well as from certain requirements as our focus may not be in the same place as usual.

The AICPA issued SAS 141, Amendment to the Effective Date of SAS Nos. 134 Through 140, which delayed the effective date of the entire suite of reporting standards (134 through 140). The original standards were designed to improve audit quality and to converge with the IAASB's project on a new auditor's report.

- SAS 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, introduced the new report, which moved the opinion section to the top of the auditor's report. It also expanded on management and the auditor's responsibilities in an audit.

- SAS 135, Omnibus Statement on Auditing Standards—2019, is a convergence effort with the PCAOB, which addresses communication with those charged with governance and related party transactions.

- SAS 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, was a project that the ASB worked closely with the DOL to provide updated guidance on the auditor's report as well as clarification of audit procedures related to employee benefit plans.

- SAS 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports addresses the auditor's responsibility, including reporting requirements, for annual reports.

- SAS 138, Amendments to the Description of the Concept of Materiality, realigns the auditing standards with the U.S. Definition of materiality after a short move to the IFRS definition.

- SAS 139, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134, provides conforming amendments to reporting for special purpose frameworks, single financial statements and summary financial statements.

- Last but certainly not least, SAS 140, Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137, provided conforming amendments to the 900 section (including compliance auditing used for Single Audits) as well as updated the definition of EOM and OM paragraphs with respect to RSI and SI.

These standards were initially set to be effective for periods ending on or after December 15, 2020, with no early adoption permitted. The original idea was to adopt the suite of standards together. At the ASB meeting in April, the board discussed the implications of COVID-19 and the additional costs that would be associated with the adoption of such a significant change in standards. They ultimately decided to delay the effective dates by one year. However, while extant standards 134, 136, 137, 139, and 140 did not permit early adoption (135 and 138 did permit early adoption), the ASB determined that flexibility was needed. Therefore, firms have the opportunity to decide whether or not they would like to adopt any standards early and what adjustments may be necessary for their quality control process.

In addition to the delay in the audit standards, the AICPA has also issued a six-month extension for peer reviews, corrective actions and implementation plans that had original due dates between January 1 and September 30. At a May meeting, the Professional Ethics Executive Committee (PEEC) approved a one-year deferral of the effective date of three interpretations - Information System Services, State and Local Government Client Affiliates, and Leases.

The AICPA was not alone in delaying standards. FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, in June, which provides a one-year delay of Topic 842 (Lease) and Topic 606 (Revenue Recognition). Revenue recognition and leases have both been delayed previously. This delay for revenue recognition applies to private entities and will be effective for annual reporting periods beginning after December 15, 2019. Private entities and nonprofits without conduit debt were previously given a one-year delay in ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates. ASU 2020-05 provides an additional year delay now deferring the standard to fiscal years beginning after December 15, 2021. Nonprofits with conduit debt were originally scheduled to implement the Leases standard with public companies (calendar 2019). However, many nonprofits with conduit debt, including hospitals and universities, have fiscal years and had not yet adopted the standard. COVID-19 heavily impacted these nonprofits. As a result, the board agreed to delay the standard an additional year (to fiscal years beginning after December 15, 2019), providing these entities with much-needed relief during this uncertain time.

GASB also addressed the complexities of COVID-19 by providing a one-year delay for all standards not yet fully effective, including:

- GASB 83, Certain Asset Retirement Obligations
- GASB 84, Fiduciary Activities
- GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- GASB 90, Majority Equity Interests
- GASB 91, Conduit Debt Obligations
- GASB 92, Omnibus 2020
- GASB 93, Replacement of Interbank Offered Rates

In addition to a one-year delay, GASB provided governmental entities an 18-month delay of GASB 87, Leases and IG 2019-3, Leases. Unlike FASB, which has taken a targeted approach and delayed the larger, more complex standards, GASB took a holistic approach and delayed large and small standards alike. Also, standards like GASB 83, which were implemented by many entities in June of 2019, were included in the delay as entities with December year-ends may not have implemented them fully by the time COVID-19 impacted operations.

While GAO did not delay the implementation of the 2018 Yellow Book, they did provide some relief for CPE requirements. Typically, Yellow Book requires 80 hours of CPE over two years, with 24 being specific to governmental accounting and auditing. GAO has provided a six-month extension for firms who have their two-year period ending between February 29, 2020, through December 31, 2020, for both the 24 and 80-hour requirements. In addition, GAO typically requires a minimum of 20 hours a year of Yellow Book CPE. In GAO-18-568G, GAO provided a waiver of the one-year requirement for one year periods ending February 29, 2020, through December 31, 2020. While Yellow Book does not usually permit the carryover of CPE between two-year periods, GAO is allowing carryover of up to 40 hours.

While the number of delays has been quite extensive, CPAs should continue to monitor standard setters. There may be additional delays in the future.

RESOURCES

- *www.gao.gov/products/GAO-18-568G*
- *fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176174696379&acceptedDisclaimer=true*
- *gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FDocumentPage&cid=1176174599833*
- *www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/sas-141.pdf*

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