



**AICPA® & CIMA®**

*Worldwide leaders in public and management accounting*

# Audit Risk Alert

**2018/19** | General Accounting and  
Auditing Developments

**Strengthening Audit Integrity  
Safeguarding Financial Reporting**





**AICPA® & CIMA®**

*Worldwide leaders in public and management accounting*

# Audit Risk Alert

**2018/19** | General Accounting and  
Auditing Developments

**Strengthening Audit Integrity  
Safeguarding Financial Reporting**

Copyright © 2018

Association of International Certified Professional Accountants. All rights reserved.

For information about the procedure for requesting permission to make copies of any part of this work, please email [copyright-permission@aicpa-cima.com](mailto:copyright-permission@aicpa-cima.com) with your request. Otherwise, requests should be written and mailed to Permissions Department, 220 Leigh Farm Road, Durham, NC 27707-8110.

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8

ISBN 978-1-94830-629-4 (print)

ISBN 978-1-948-30630-0 (ePub)

## Notice to Readers

This Audit Risk Alert (alert) replaces *General Accounting and Auditing Developments—2017/18*.

This alert provides auditors of financial statements with an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform. Also, an entity's internal management can use this alert to address areas of audit concern.

This publication is an other auditing publication, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.<sup>1</sup> Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an other auditing publication, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

## Recognition

The AICPA gratefully acknowledges those members of the Auditing Standards Board and the AICPA Technical Issues Committee who helped identify the interest areas for inclusion in this alert. The AICPA also gratefully acknowledges Jeremy Dillard, Bob Green, and Manda Dinkel for their review of this publication.

### AICPA Staff

Liese Faircloth  
*Manager*

Product Management and Development

## Feedback

The Audit Risk Alert *General Accounting and Auditing Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert would also be appreciated. You may email these comments to [A&APublications@aicpa.org](mailto:A&APublications@aicpa.org).

---

<sup>1</sup> All AU-C section can be found in AICPA *Professional Standards*.



# TABLE OF CONTENTS

	<i>Paragraph</i>
General Accounting and Auditing Developments — 2018/19	.01-.338
How This Alert Helps You .....	.01-.03
Economic and Industry Developments .....	.04-.08
The Current Economy .....	.04-.05
Key Economic Indicators .....	.06-.08
Legislative and Regulatory Developments .....	.09-.25
Tax Cuts & Jobs Act .....	.09-.11
Inspections of Broker-Dealer .....	.12-.25
Audit and Attestation Issues and Developments .....	.26-.133
The AICPA Enhancing Audit Quality Initiative .....	.26-.43
Compliance With the Risk Assessment Standards .....	.44-.55
Emerging Technologies: What Practitioners Need to Know .....	.56-69
Cybersecurity .....	.70-.71
Auditing Standards Board .....	.72-.93
Accounting and Review Services Committee .....	.94-.116
Common Peer Review Findings .....	.117-.133
Revenue Recognition .....	.134-.172
Overview .....	.134-.136
Effective or Applicability Date .....	.137-.138
Overview of the New Guidance .....	.139-.141
Understanding the Five-Step Process .....	.142-.153
Additional Guidance Under the New Standard .....	.154-.155
Transition Resource Group .....	.156-.157
Latest Developments .....	.158-.171
Conclusion .....	.172
New Leases Standard Will Change Financial Statement Presentation .....	.173-.207
Issuance and Objective .....	.173-.174
Applicability and Effective Date .....	.175-.176
Main Provisions .....	.177-.188
Lessee Accounting .....	.189-.195
Lessor Accounting .....	.196-.200
Sale and Leaseback Transactions .....	.201-.202
Leveraged Lease Arrangements .....	.203
Land Easement Practical Expedient .....	.204-.206
Targeted Improvements .....	.207
Accounting for Financial Instruments .....	.208-.230
Overview .....	.208-.209
Applicability and Effective Date .....	.210-.213
Impairment .....	.214-.228
Hedge Accounting .....	.229
Conclusion .....	.230

	<i>Paragraph</i>
General Accounting and Auditing Developments — 2018/19 — continued	
Other Accounting Issues and Developments .....	.231-.259
Comprehensive Income .....	.232-.234
Stock Compensation .....	.235-.239
Disclosure Framework .....	.240-.245
Defined Benefit Plan .....	.246-.252
Internal-Use Software .....	.253-.259
Recent Pronouncements at a Glance .....	.260-.262
Recent Auditing and Attestation Pronouncements and Guidance .....	.260
Recent Accounting and Financial Reporting Guidance .....	.261
Recently Issued Technical Questions and Answers .....	.262
Recent AICPA Independence and Ethics Developments .....	.263-.272
AICPA Conceptual Frameworks Toolkits .....	.263-.264
Definition of a <i>Client</i> .....	.265-.272
On the Horizon .....	.273-.321
Auditing and Attestation Pipeline — Nonissuers .....	.275-.284
Auditing and Attestation Pipeline — Issuers .....	.285-.292
Accounting and Financial Reporting Pipeline .....	.293-.316
Independence and Ethics Pipeline .....	.317-.321
Resource Central .....	.322-.338
Publications .....	.323
Continuing Professional Education .....	.324-.327
Webcasts .....	.328
Member Service Center .....	.329
Hotlines .....	.330-.337
Industry Websites .....	.338



## How This Alert Helps You

**.01** This alert helps you plan and perform your audits and can be used by an entity's internal management to identify issues significant to the industry. It also provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool to help you identify the risks that may result in the material misstatement of financial statements, including significant risks requiring special audit consideration. For developing issues that may have a significant impact in the near future, the "On the Horizon" section provides information on these topics. Refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

**.02** It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain sufficient appropriate audit evidence on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise the following:
  - Tests of controls, when required by generally accepted auditing standards (GAAS) or when the auditor has chosen to do so
  - Substantive procedures that include tests of details and substantive analytical procedures

**.03** The auditor should develop an audit plan that includes the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*. AU-C section 315 defines *risk assessment procedures* as "the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels." A *relevant assertion* "has a reasonable possibility of containing a misstatement or misstatements that would cause the financial statements to be materially misstated. The determination of whether an assertion is a relevant assertion is made without regard to the effect of internal controls." As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the "industry, regulatory, and other external factors, including the applicable financial reporting framework," relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

## Economic and Industry Developments

### The Current Economy

**.04** When planning an audit or review engagement, auditors need to understand the economic conditions facing the industry and marketplace in which an entity operates, as well as the effects of these conditions on the entity itself. These external factors, such as interest rates, availability of credit, consumer