

# FORVIS

## Audit Update – December 2023

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## Agenda

- FORVIS news
- Audit update
  - Auditing estimates – SAS No. 143
  - CECL Standard – ASU 2016-13
  - Employee benefit plan audit threshold change
  - Employee retention credits
  - Environmental, Social and Governance (ESG)
- State of accounting and accounting firms
- Bridging the capacity gap
- Other items

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# FORVIS news

FORVIS announces global network with French based firm, Mazars

New Name – **Forvis Mazars**

New Color – **Blue**

Effective June 1, 2024

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# Audit Update

- Audit update
  - Auditing estimates – SAS No. 143

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## Audit Update – Auditing Estimates, SAS 143

- Statement on Auditing Standards No. 143
  - Auditing Accounting Estimates and Related Disclosures
    - Effective for 2023 calendar year-end audits
  
- Why was it issued?
  - Augments existing standard so that it is more in line with PCAOB standards
  - Help auditors evaluate estimates in an increasingly complex environment
  - Enhance auditor’s focus on factors driving estimation uncertainty

## Audit Update – Auditing Estimates, SAS 143

- What is an estimate?
  - Any monetary amount in the financial statements for which the measurement is subject to estimation uncertainty
    - What is estimation uncertainty?
      - Inherent lack of precision in the estimate

## Audit Update – Auditing Estimates, SAS 143

- Degrees of estimation uncertainty – Higher / Lower
  - Impacts extent of naturing, timing & extent of further audit procedures
- Examples of estimates
  - Inventory obsolescence
  - Pension liability
  - Provision for expected credit losses
  - Impairment of long-lived assets or equipment
  - Revenue recognized in long-term revenue contracts

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## Audit Update – Auditing Estimates, SAS 143

- Evaluate management’s method and assumptions
  - Assumptions include:
    - Interest rate, discount rate, future conditions or events
- Significant assumptions are those that:
  - Are sensitive to variation
  - Are susceptible to management bias or manipulation
  - Are based on unobservable data

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## Audit Update – Auditing Estimates, SAS 143

- Review outcome of previous estimates
  - Lookback tests provide evidence to the accuracy of the estimation process
- Differences in estimate vs. actual could indicate:
  - Change in estimate
    - All information available at the time the financials were issued was appropriately considered by management
  - Error
    - Management missed or misused available information

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## Audit Update – Auditing Estimates, SAS 143

- Evaluate need for a specialist
- Identity and Assess Risk of Material Misstatement
  - Complexity and subjectivity risk factor considerations:
    - Degree of estimation uncertainty
    - Degree of impact from selection and application of method, assumptions and data
    - Degree to which management's estimate and related disclosures are impacted

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# Audit Update – Auditing Estimates, SAS 143

- Design Audit Procedures to test estimates
  - Evidence from events occurring after year-end but before the financial statements are issued
    - E.g., Bonus accrual – Compare to actual bonus payout
  - Testing how management made the accounting estimate
    - When information is not available before financial statements are to be issued
    - Preparing a different model to calculate the estimate and compare to management’s estimate

# Current Expected Credit Loss (CECL) Standard

# CECL Standard

- Effective for calendar year ends 12-31-2023
- Will impact all types of receivables
  - Trade A/R
  - Reinsurance recoveries
- Will also impact HTM and AFS fixed income (debt) securities
  - The term 'OTTI' is going away
  - Replaced with allowance that moves up and down
    - Calculation based on discounted cash flow
      - Allowance for credit loss hits income
      - Remaining impairment continues to be recorded through OCI

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# Employee Benefit Plan Audit Threshold Change

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# Employee Benefit Plan Audit Threshold Change

- **Historical Threshold**

- Defined contribution plans with more than 100 eligible participants at the beginning of the plan year
  - 80 - 120 participant rule
  - Does not consider how many employees are actively participating

# Employee Benefit Plan Audit Threshold Change

- **New Threshold Effective January 1, 2023**

- Only participants with an account balance will be considered
  - Determination will no longer be based on number of eligible participants
  - 80 – 120 participant rule stays in place
- One important item, for plans formed during 2023 (i.e. after 1/1/2023), participants with account balances at year-end will be the determining factor, and the 80-120 rule does not apply



# Employee Benefit Plan Audit Threshold Change

Example	New Plan?	Eligible Participants @ Beginning of Year	Participants With Account Balances @ Beginning of Year	Participants With Account Balances @ End of Year	Prior Year Plan Type (Large or Small)	Large Plan With Audit Requirement?
Plan A	No	300	150	175	Large	Yes
Plan B	No	300	130	70	Large	Yes
Plan C	No	150	75	85	Large	No
Plan D	No	150	85	95	Large	No
Plan E	No	110 <sup>1</sup>	90	90	Small	No
Plan F	Yes	200	0	130	N/A	Yes
Plan G	Yes	200	0	101 <sup>2</sup>	N/A	Yes

<sup>1</sup> Plan E never had more than 120 participants in the plan and, therefore, always utilized the 80-120 rule to be exempt from the audit requirement.

<sup>2</sup> Plan G has an audit requirement since it has 100 or more participants with account balances as of the end of their first year. They would not be able to apply the 80-120 rule and use the threshold of 120 since they would not have had a prior-year filing.

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# Employee Benefit Plan Audit Threshold Change

- Expected impact
  - Reduce costs and burdens for smaller plans and their sponsors
  - DOL expects this change to eliminate the audit requirement for approximately 20,000 defined contribution employee benefit plans

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# Employee Retention Credits

## Employee Retention Credits

- Were/are available, by quarter, for all of 2021 and Q1-Q3 2022
- Two opportunities for eligibility
  - Gross Receipts Test
    - Revenues, by quarter, decreased significantly compared to quarters in 2019 (pre-COVID)
  - Government Mandate Test
    - Orders from an appropriate governmental authority required your business to shut down

# Employee Retention Credits

- September 14, 2023, IRS announced an immediate moratorium on processing of new ERC claims

The moratorium follows “growing concerns inside the tax agency, from tax professionals as well as media reports that a substantial share of new claims from the aging program are ineligible and increasingly putting businesses at financial risk by being pressured and scammed by aggressive promoters and marketing.”

# Employee Retention Credits

- Processing was already slow for ERC claims
  - Moratorium will increase processing time
- IRS provided signs of aggressive ERC marketing:
  - Unsolicited calls
  - Fees are based on percentage of ERC refund claimed
  - Preparers refusing to sign the ERC return
  - Claiming the business qualifies for the credit before any work/evaluation has been completed

# Employee Retention Credits

- What this means for auditing:
  - Evaluating eligibility, under either the gross receipts test or government mandate test
  - Could require third-party involvement from legal or tax specialists
  - Reserving for amounts received until further guidance is provided by the IRS or other experts

# Environmental, Social and Governance

# ESG

- **Environmental** – How a company performs as a steward of nature
  - Climate risk
- **Social** – How a company manages relationships with their employees, customers and community
  - Diversity and inclusion
- **Governance** – Looks at a company’s leadership, executive pay, internal data controls, & shareholder rights
  - Board composition
  - Executive/employee compensation

# ESG

## Current Events

- ESG reporting in the European Union (EU) under CSRD standards
  - Effective January 1, 2024, for large public entities
    - Impacts non-EU companies that have ‘considerable activity in the EU’, including physical presence
- Several other sustainability reporting requirements in the EU starting to become effective in 2024

# ESG

## Current Events

- ESG Reporting in **California**
  - Governor Newsom signed two disclosure laws on October 7, 2023
    - Companies will start disclosing emissions information by 2026



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# ESG

## Current Events

- ESG Reporting in **Florida**
  - Gov. DeSantis signed into law a bill in May 2023 barring state officials from investing public money to promote ESG



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# ESG

## Audit Considerations

- Reviewing and evaluating non-financial related information and disclosure
- Providing assurance on non-financial related information and disclosure

# State of Accounting and Accounting Firms



# State of Accounting and Accounting Firms

- Demand for accountants has never been higher
- Approximately 47,000 students earned a bachelor's degree in accounting 2021-2022, down 7.8% from previous year
- Accountants are leaving the accounting field in record numbers

**Have a mismatch between demand and supply**

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# State of Accounting and Accounting Firms

- What is going on with accounting firms?
  - Sole proprietors retiring
  - Mergers
  - Private Equity Ownership
    - More accounting firms being bought by PE
      - PE Firms will generally pay partners and staff more
      - Professional service firms are heating up for PE
  - Current partnership model is seen as old-school?
    - Not adjusting to the current workforce?

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# Bridging the Capacity Gap



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## Bridging the Capacity Gap

- With more regulations and new standards, there is more accounting work to be done
  - Can accounting firms become more efficient?
  - Can accounting firms find more resources?
  - Will capitalism prevail?

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# Bridging the Capacity Gap

- Artificial intelligence
  - Agreement digesting
  - Bank reconciliations
  - Financial Statement drafting
- ChatGPT
- Make accounting great again!

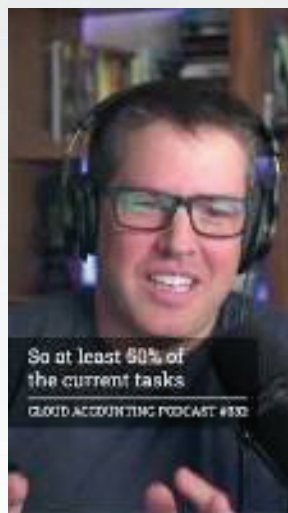
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# Bridging the Capacity Gap

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