



Accounting and Auditing Update

June 21, 2024



Introductions



Trevor Brown, CPA
Senior Manager

Trevor performs financial statement audits and Uniform Guidance audits for healthcare providers, including multiple-hospital health systems, stand-alone hospitals, public hospitals, academic physician practice plans, and physician groups.

Trevor also provides audit services for not-for-profit foundations, governmental entities, and other organizations.



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Mimi Gracheck, CPA
Senior Manager

Mimi performs financial statement audits and assurance services for various organizations, including hospitals, health systems, physician groups, foundations, for-profits, not-for-profits, and SaaS organizations.

She also assists clients with the design and implementation of new internal control policies and procedures.



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Agenda

1. Financial Accounting Standards Board (FASB) Update
2. Governmental Accounting Standards Board (GASB) Update
3. Single Audit Update
4. Auditing Standards Board (ASB) Update



FASB Update

ASU 2022-01

Derivatives and Hedging, Fair Value Hedging – Portfolio Layer Method



Effective for all non-public entities for fiscal years beginning after December 15, 2023, and interim periods within.



Issued to improve the optional hedge accounting model with the objective to better portray the economic results of an entity's risk management activities within in its financial statements regarding hedge accounting.

ASU 2022-04

Liabilities-Supplier Finance Programs, Disclosure of Supplier Finance Program Obligations

- Effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023.
- Rollforward disclosure example (if comparative):

The rollforwards of Entity A’s outstanding obligations confirmed as valid under its supplier finance program for years ended December 31, 20X2, and 20X1, are as follows (in thousands):

	<u>20X2</u>	<u>20X1</u>
Confirmed obligations outstanding at the beginning of the year	\$ 733	\$ 712
Invoices confirmed during the year	2,435	2,278
Confirmed invoices paid during the year	<u>(2,315)</u>	<u>(2,257)</u>
Confirmed obligations outstanding at the end of the year	<u>\$ 853</u>	<u>\$ 733</u>

Reference Rate Reform, Deferral of the Sunset Date of Topic 848

- Defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848.



- Applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform.

ASU 2023-01

Leases, Common Control Arrangements

- Effective for fiscal years beginning after December 13, 2023, including interim periods within those fiscal years.
- The amendments in this Update respond to private company stakeholders' concerns about applying Topic 842 to related party arrangements between entities under common control.



Business Combinations – Joint Venture Formations, Recognition and Initial Measurement

- Effective prospectively for all joint venture formations with a formation date on or after January 1, 2025.
 - A joint venture that was formed before January 1, 2025 may elect to apply the amendments retrospectively if it has sufficient information available.
 - Early adoption allowed.
- This ASU addresses the accounting for contributions made to a joint venture, upon formation, in a joint venture's separate financial statements. The objectives of the amendments are to:
 - Provide decision-useful information to investors and other allocators of capital (collectively, investors) in a joint venture's financial statements; and
 - Reduce diversity in practice.

- **Intangibles (Goodwill and Other), Crypto Assets**
 - Effective for all entities for fiscal years beginning after December 15, 2024, including interim periods. Requires a cumulative-effect adjustment to retained earnings. Early adoption allowed.
 - This ASU improves the accounting for crypto assets while reducing cost and complexity.
 - Requires separate presentation of crypto assets measured at fair value and of changes from the remeasurement of crypto assets and provides additional disclosure requirements.



Current Expected Credit Loss (CECL) Implementation From a Healthcare Perspective

Effective date for non-public entities was January 1, 2023.

- Applies to patient accounts receivable, loan receivables, “other-than-trading” debt securities and loan commitments.
- First step: Identify groups of assets that are measured at amortized cost basis on the balance sheet.
- Second step: Consider the following
 - Portfolio segmentation
 - Loss estimate methodology
 - Contractual terms
 - Historical loss rates
 - Current and future characteristics and forecasts.

Current Expected Credit Loss (CECL) Implementation From a Healthcare Perspective

Debt Securities classified as “other-than-trading”

Old Guidance (ASC 320-10-35)	New Guidance (ASC 326-20)
Securities evaluated individually	Assets with similar risk characteristics required to be evaluated collectively
Loss was recognized directly if FV was less than carrying amount and either 1.) there was intent to sell 2.) value would not recover prior to a requirement to sell, or 3.) recovery was not expected.	Expected credit loss through allowance. No consideration is given to intent or likelihood of sale or its cost basis and fair value.
Expected credit losses were based on best estimate	Even remote risks of loss need to be considered.
After loss was recognized, any improvements in expected cash flows were accreted into income over life of security.	Favorable and unfavorable changes in expected cash flows are recognized immediately with an adjustment to the CECL allowance.

Current Expected Credit Loss (CECL) Implementation From a Healthcare Perspective

Patient Receivables

- Healthcare uniquely positioned regarding impact on receivables given the industry specific implicit and explicit price concession principles from ASC 606 Revenue standard.
- Implementing CECL requires you to evaluate if any portion of the implicit price concessions or bad debt expenses should be recorded as an allowance for expected credit loss.

Implicit price concession	Credit Loss
Represents decrease in the amount provider is willing to collect for services provided (implicitly)	Represents loss on amount provider believed they were entitled to, but ultimately unable to collect
Changes in credit loss estimates recorded to expense	Changes in estimates recorded to revenue

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GASB Update

Accounting changes and error corrections

- Effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
 - Earlier application is encouraged.
- Defines “**accounting changes**” as: changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes
- Prescribes the accounting and financial reporting for:
 - Each type of accounting change; and
 - Error corrections

Accounting changes and error corrections (*cont.*)

- Requires that:
 - Changes in accounting principles and error corrections be reported retroactively by restating prior periods (if practical);
 - Changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period; and
 - Changes in accounting estimates be reported prospectively by recognizing the change in the current period.
- This Statement also requires that the aggregate amount of adjustments to, and restatements of, beginning net position, fund balance, or fund net position (as applicable) be displayed by reporting unit in the financial statements.

Accounting changes and error corrections (*cont.*)

- A change in the presentation of one of the government’s component units, from blended to discrete
- An addition of a component unit to the financial reporting entity
- A correction of an error in previously issued financial statements affecting only governmental activities

	Reporting Units Affected by Adjustments to and Restatements of Beginning Balances				
	Funds	Government-Wide		Component Units	
	Enterprise Fund D	Governmental Activities	Business-Type Activities	QRS Foundation	XYZ Foundation
12/31/X1, as previously reported	\$ 74,831	\$ 768,033	\$ 543,163	\$ -	\$ -
Change from blended to discrete presentation	(2,184)	-	(2,184)	2,184	-
Addition of discretely presented component unit	-	-	-	-	1,500
Error correction	-	71,312	-	-	-
12/31/X1, as restated	\$ 72,647	\$ 839,345	\$ 540,979	\$ 2,184	\$ 1,500

Compensated Absences

- Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.
 - Earlier application is encouraged.
- Defines “**compensated absences**” as: leave for which employees may receive one or more (a) cash payments when the leave is used for time off; (b) other cash payments, such as payment for unused leave upon termination of employment; or (c) noncash settlements
- Requires that liabilities for compensated absences be recognized for:
 - Leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
 - Parental leave, military leave, and jury duty leave not be recognized until the leave commences
 - Specific types of compensated absences not be recognized until the leave is used.

GASB Statement No. 101



Compensated Absences (cont.)

Disclosure

- Amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

Measurement

- For leave that has **NOT** been used:
 - Employee's pay rate at date of financial statements
- For leave that **HAS BEEN** used **but** unpaid or settled:
 - Amount of cash payment or noncash settlement expected

Certain Risk Disclosures

- Effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter.
 - Earlier application is encouraged.
- The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.
- This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

GASB Statement No. 102

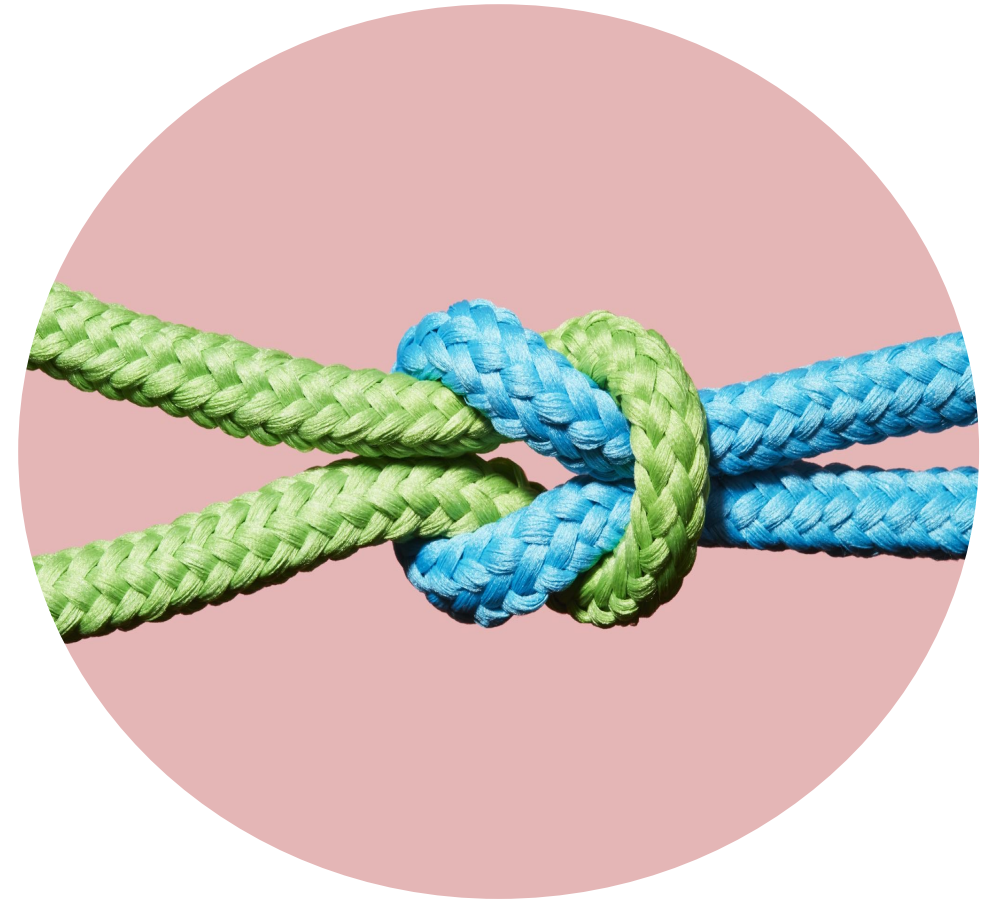
Certain Risk Disclosures (*cont.*)

Concentrations

- Employers
- Industries
- Inflows of resources
- Workforce covered by collective bargaining agreements
- Providers of financial resources
- Suppliers of material, labor, or services

Constraints

- Limitations on raising revenue
- Limitations on spending
- Limitations on the incurrence of debt
- Mandated spending





Single Audit Update

Single Audit Overview

- A single audit is a compliance audit for entities that expend \$750,000 or more in federal awards each year and performed in conjunction with the entity's financial statement audit. This threshold has increased with the 2024 Compliance Supplement.
- A listing of federal awards with expenditures are presented on a Schedule of Expenditures of Federal Awards (SEFA), which is submitted to the Federal Audit Clearinghouse (FAC).
- As part of this audit, the auditor must determine whether the auditee complies by using the Compliance Supplement as the guide in determination.



2024 Compliance Supplement Update

- The U.S. Office of Management and Budget (OMB) updates the Compliance Supplement annually to help auditors and entities comply with federal, contract, and grant requirements. The 2024 Compliance Supplement includes several changes, including:
 - **Thresholds: Increasing** the threshold for equipment from \$5,000 to \$10,000, **the Single Audit requirement threshold from \$750,000 to \$1,000,000**, and the exclusion threshold of subawards to \$50,000 from \$25,000
 - **Rates: Increasing the de minimis indirect rate from 10% to 15%**
 - **Language: Revising the headings of Title 2 CFR and Subtitle A and Chapter I to replace “Grants and Agreements” with “Federal Financial Assistance”**
 - **Simplifying language and program requirements**

Compliance Supplement Overview

Part 2

- The Matrix identifies the federal programs and compliance requirements addressed in the Compliance Supplement

Part 3

- The Compliance Requirements describe the 12 tests that the auditor must consider, as applicable

Part 4

- Agency Program Requirements describe each of the federal program's procedures in detail

Part 5

- Cluster of Programs lists programs that are closely related and treated as a single program for the purpose of meeting the audit requirements

Part 6

- Requires auditors to obtain an understanding of the non-federal entity's internal control over federal programs

Reporting on Assistance Listing 93.498 on SEFA



	Payment Received Period (Payments Exceeding \$10,000 in Aggregate Received)	Period of Availability for Eligible Expenses	Period of Availability for Lost Revenues	PRF and ARP Rural Portal Reporting Time Period
Period 1	April 10, 2020 to June 30, 2020	January 1, 2020 to June 30, 2021	January 1, 2020 to June 30, 2021	July 1, 2021 to September 30, 2021
Period 2	July 1, 2020 to December 31, 2020	January 1, 2020 to December 31, 2021	January 1, 2020 to December 31, 2021	January 1, 2022 to March 31, 2022
Period 3	January 1, 2021 to June 30, 2021	January 1, 2020 to June 30, 2022	January 1, 2020 to June 30, 2022	July 1, 2022 to September 30, 2022
Period 4	July 1, 2021 to December 31, 2021	January 1, 2020 to December 31, 2022	January 1, 2020 to December 31, 2022	January 1, 2023 to March 31, 2023
Period 5	January 1, 2022 to June 30, 2022	January 1, 2020 to June 30, 2023	January 1, 2020 to June 30, 2023	July 1, 2023 to September 30, 2023
Period 6	July 1, 2022 to December 31, 2022	January 1, 2020 to December 31, 2023	January 1, 2020 to June 30, 2023	January 1, 2024 to March 31, 2024
Period 7	January 1, 2023 to June 30, 2023	January 1, 2020 to June 30, 2024	January 1, 2020 to June 30, 2023	July 1, 2024 to September 30, 2024



ASB Update

Recently Effective or Upcoming SASs

SAS No. 142
Audit Evidence

SAS No. 143
Auditing Accounting Estimates
and Related Disclosures

SAS No. 144
Amendments to *AU-C Sections 501, 540, and 620* Related to the Use of Specialists and the Use of Pricing Information Obtained from External Information Sources

SAS No. 145
Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

SAS No. 147
Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations

SAS No. 148
Amendment to *AU-C Section 935*

SAS No. 142: Overview

Audit Evidence

- Effective for audits of financial statements periods ending on or after December 15, 2022
- Created to evaluate the evolving nature of business and intended to assist with maintaining professional skepticism by establishing attributes to consider when evaluating information used to obtain sufficient audit evidence
- Defines types of audit evidence and emphasizes evidence quality

SAS No. 143: Overview

Auditing Accounting Estimates and Related Disclosures

- Effective for audits of financial statements periods ending on or after December 15, 2023
- Supports auditors in addressing complex scenarios and transactions involving estimates, including the evaluation of the assumptions, uncertainties, and potential management bias surrounding significant estimates
- Defines accounting estimates, estimation uncertainty, and management bias and lists important considerations auditors must take into consideration surrounding these terms

SAS No. 144: Overview

Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained from External Information Sources

- Effective for audits of financial statements periods ending on or after December 15, 2023
- Contains guidance on using the work of management's specialists, the use of pricing services in evaluating fair value estimates and using the work of management's specialists.
- Defines management's specialists

SAS No. 145: Overview

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

- Supersedes SAS No. 122
- Issued in 2021
- Effective for audits of financial statements periods ending on or after December 15, 2023

Key Enhancements to the Risk Assessment Process

- Obtaining an understanding of the entity's system of internal control
- Internal control terminology
- Separate inherent and control risk assessments
- Assessing control risk at the maximum level
- Definition of significant risk
- Stand-back requirement
- Communication of internal control related matters



Components of a System of Internal Control

- SAS No. 145 clarifies that the overall understanding of an entity's system of internal controls is achieved by understanding and evaluating certain aspects of each of the following:
 - The control environment
 - The entity's risk assessment process
 - The entity's process to monitor the system of internal control
 - The information system and communication
 - Control activities



Changes to Internal Control Terminology

- Throughout Generally Accepted Auditing Standards the term “internal controls” has been changed to “system of internal controls”.
- The term “controls” has been modified to add the following text to the definition:

“*Policies or procedures* that an entity establishes to achieve the control objectives of management or those charged with governance. In this context:

- **Policies** are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- **Procedures** are actions to implement policies.”

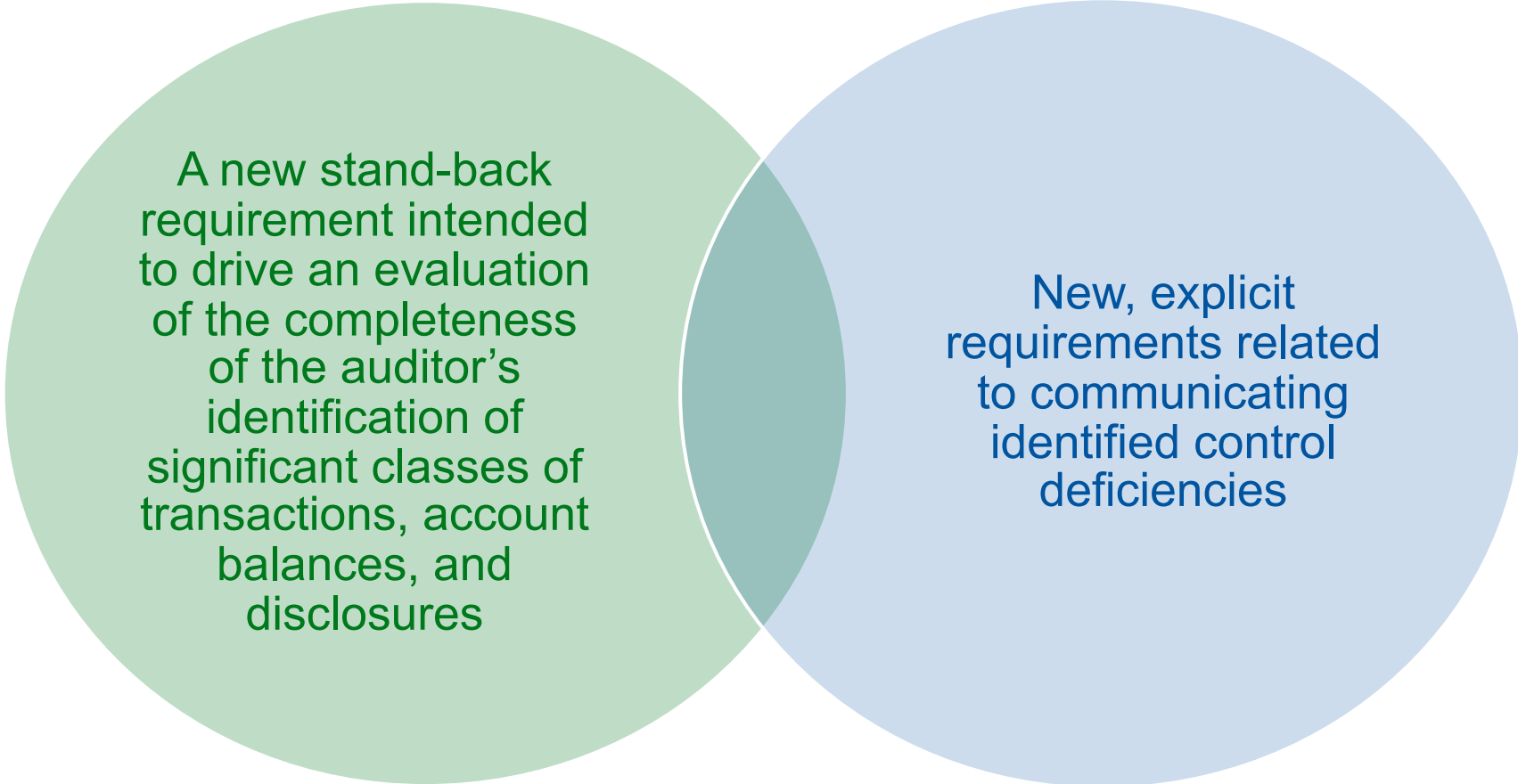
Audit Risk Model Considerations



- **SAS No. 145 changes to risk assessment include:**
 - Requirement to assess inherent risk and control risk separately
 - Requirement to assess control risk at the maximum level when control operating effectiveness is not tested
 - Revised definition of *significant risks*:
 - No longer based on the audit response (i.e., does a risk require special audit consideration)
 - Now identified as a risk with an assessed inherent risk close to the upper end of the scale

Additional Key Guidance Changes

SAS No. 145 introduces:



A new stand-back requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures

New, explicit requirements related to communicating identified control deficiencies

Scalability of SAS No. 145

- SAS No. 145 includes scalability guidance using the complexity of an auditee entity's activities and its environment, including its system of internal control, as the primary driver of the nature and extent of risk assessment procedures
- In a corresponding move, SAS No. 145 has removed "Considerations Specific to Smaller Entities" sections previously included in risk assessment guidance
- SAS No. 145 recognizes that some aspects of the entity's system of internal control may be less formalized but still present and functioning
- Risk assessment procedures such as inquiries and observation may be appropriate when an entity's systems and processes lack formality

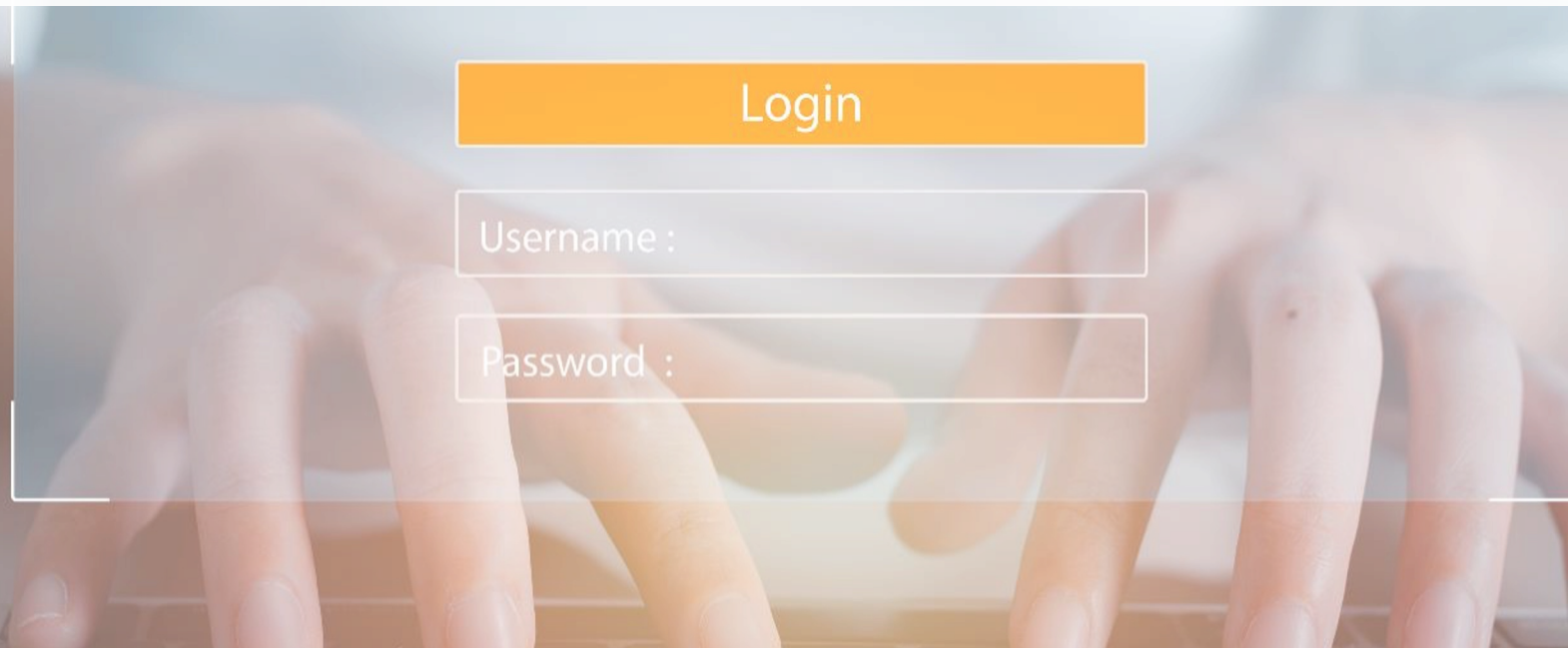


General Information Technology (IT) Controls

- **SAS No. 145 introduced definitions for the following:**
 - **Risks arising from the use of IT:** Susceptibility of information-processing controls to ineffective design or operation, or risks to the integrity of information in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes.
 - **General IT controls:** Controls over the entity's IT processes that support the continued proper operation of the IT environment.

General IT Controls

- Expanded requirement for the auditor to identify general IT controls that address the risks arising from the use of IT and to evaluate their design and determine their implementation
- New explicit requirement to understand the use of IT in the entity's structure, ownership and governance, and business model
- General IT controls do not need to be identified for every IT process.



Appendix E – Considerations for Understanding IT

- *Appendix E* to SAS No. 145 includes guidance that may be relevant in identifying IT applications and other aspects of the IT environment that may be subject to risks arising from the use of IT:
 - **Manual or automated controls**
 - **System generated reports**
 - **End-user computing**
 - **Emerging technologies**
 - **Scalability**



Preparing for Audits Under SAS No. 145



- ✓ Update internal risk assessments
- ✓ Modify internal control policies and procedures to address key IT processes
- ✓ Additional internal control testing and walkthroughs
- ✓ Familiarity with new terminology

SAS No. 147 – Overview

- Effective for audits of financial statements periods ending on or after June 30, 2023
- Amends guidance related to inquiries of the predecessor auditor regarding fraud and noncompliance with laws and regulations, including:
 - Identified or suspected fraud involving management, employees who have significant roles in internal control, or others when the fraud resulted in material misstatement
 - Matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor's attention during the audit, other than matters that are clearly inconsequential.

Future SASs and ASB Updates



- SAS No. 146, Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards
- SAS No. 149, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)
- ASB’s Statement on Quality Management Standards (SQMS) No. 1 and 2

How can we help?



Thank you!



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