CAQ Expands CECL and ICFR Resources

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Last week, the Center for Audit Quality released two new resources—an updated Guide to Internal Control over Financial Reporting (ICFR Guide) and a new Tool for Audit Committees: Preparing for the New Credit Losses Standard (CECL Guide).

The ICFR Guide updates the CAQ's 2013 version and provides an overview of ICFR concepts, including the control environment, control activities, reasonable assurance and the levels of ICFR deficiencies. The ICFR Guide also includes a discussion of the roles and responsibilities of management, audit committees and auditors with respect to ICFR. Among other updates for 2019, the ICFR Guide now includes a discussion of recent research regarding the relationship between effective ICFR and investor confidence and strength in the financial reporting process. Notably, the 2019 updates were released on the same day as the SEC's proposed Amendments to the Accelerated Filer and Large Accelerated Filer Definitions, SEC Release No. 34-85814 (May 9, 2019), which amendments would, among other things, reduce the number of issuers subject to the ICFR auditor attestation requirement under Section 404(b) of the Sarbanes-Oxley Act of 2002.

More specifically tailored to audit committees, the CECL Guide includes a high-level overview of the upcoming current expected credit losses accounting standard, which first becomes effective for fiscal years beginning after December 15, 2019 (i.e. January 1, 2020 for most calendar-year filers). Helpfully, the CECL Guide includes questions that audit committees may want to consider discussing with management and their auditors before the new standard takes effect. Consistent with the adoption of other recent accounting standards, the CECL Guide notes the positive impact of audit committees understanding management's implementation plans and monitoring management's progress against such plans. The CECL Guide also underscores the importance of providing transition disclosures. Quoting remarks by SEC Chief Accountant Wesley Bricker at the September 2018 AICPA National Conference on Banks & Savings Institutions, the CECL Guide states:

> Anticipated impacts of the standard may need to be communicated externally as well. Nobody likes surprises. Transition disclosures enable investors to understand the anticipated effects of the new standard. Drawing from experience with IFRS 9 transition reports, I believe the following concepts can help investors understand the anticipated effects:

- Easy-to-understand explanation of new terms and key concepts;
- Specific descriptions of the methodology and significant judgments made by management;
- Tabular presentation of the economic assumptions utilized; and
- Quantified effects of moving from incurred to expected credit losses, disaggregated by lending portfolio.

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