



Conference of Minnesota/Midwest Accounting Educators

Audit/Accounting Update

May 25, 2023



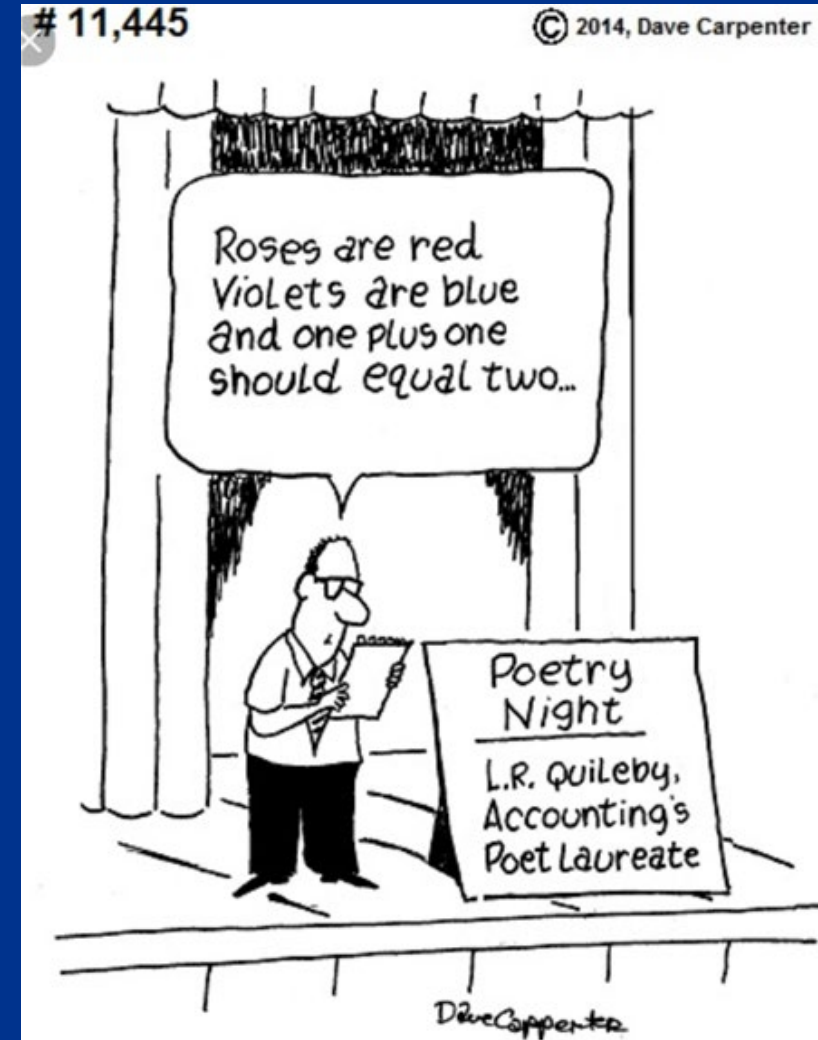
Andrea Chung

Audit Managing Director
KPMG



Agenda

- Going concern implementation issues
- Upcoming accounting changes
- Revenue recognition challenges
- Technology in the audit
- University connection resources
- KPMG institutes resources





Going Concern

Going concern – Accounting standard

Substantial doubt

- Substantial doubt about an entity's ability to continue as a going concern is raised when it is probable the entity will not be able to meet its obligations during the look-forward period.

Probable

- Likely to occur, which is interpreted to mean there is a high likelihood that the future event will occur.

Assessment date

The date on which management concludes its going concern assessment. This is the date that:

- the financial statements are issued, for SEC filers and entities that are conduit bond obligors for conduit debt securities that are traded in a public market; or
- available to be issued, for all other entities.

Look-forward period

- The period covered by the going concern assessment, which is the 12-month period extending from the assessment date.

Observations

Uncommitted debt financing transactions including refinancing transactions

Uncommitted equity financing transactions such as at-the market (ATM) facilities and investor commitments to purchase the reporting entity's shares

Management's plans must be within management's control and be feasible

Consider and evaluate the most recent performance of the reporting entity, inclusive of the subsequent event period through the date the financial statements are issued

Read the risk factors and management discussion analysis (MD&A) to ensure consistency with understanding of the management's assessment and the disclosure in the notes to the financial statements

Understand the difference between substantial doubt raised versus substantial doubt exists



Other audit reminders

When auditing management's assessment, remember:

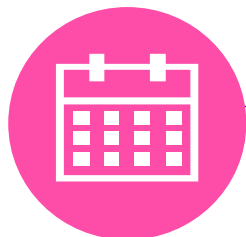
- **Avoid anchoring** to management's position, evaluate the data and assumptions used in management's assessment, consider the need for appropriate sensitivity analysis and consider management's historical accuracy in forecasting.
- Obtain **corroborating evidence** to support management's assertions that the requirements of ASC 205-40 have been appropriately addressed.
- **Obtain, read, evaluate legally binding agreements** such as debt and investor agreements when such support is critical to the effectiveness of management's plans to alleviate substantial doubt.
- Consider **findings and audit evidence obtained in other audit areas** (i.e. long-lived assets and goodwill) to ensure there is no disconfirming evidence that should be considered in the analysis of the entity's ability to continue as a going concern.





Upcoming Accounting Changes

Standards effective in 2023 (public companies)



ASU

Summary

2022-04, Supplier finance program disclosures

Creates a new Subtopic 405-50 that requires a buyer in a supplier finance program arrangement to disclose information that is sufficient to allow financial statement users to understand the nature of the arrangement, activity during the period, changes from period-to-period and the potential magnitude of its supplier finance programs.

In a supplier finance program, a buyer enters into an arrangement with a finance provider or an intermediary to settle its obligations with suppliers.

2022-02, Troubled debt restructuring (TDR) and vintage disclosures

Eliminates TDR recognition and measurement guidance for creditors and requires new disclosures.

Requires public business entities to disclose current-period gross writeoffs by year of origination (i.e. the vintage year) for the related financing receivables and net investments in leases.

2022-01, Fair value hedging – Portfolio layer method

Establishes the portfolio-layer method, which expands an entity's ability to achieve fair value hedge accounting for hedges of financial assets in a closed portfolio.

Standards effective in 2023 (public companies)



ASU

Summary

2021-08, Accounting for contract assets/liabilities from contracts with customers

Requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired revenue contracts using the recognition and measurement guidance in Topic 606 (revenue recognition). Under the 'Topic 606 approach', the acquirer applies the revenue model as if it had originated the contracts. This is a departure from the current requirement to measure contract assets and contract liabilities at fair value.

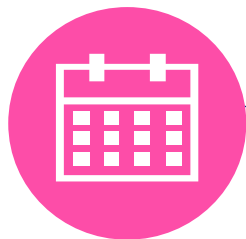
2018-12/2022-05, Long-duration insurance contracts

Changes how companies recognize, measure, present and disclose long-duration contracts issued by an insurance entity, and intends to improve, simplify and enhance the financial reporting requirements for long-duration contracts.

ASU 2022-05 allows companies to exclude certain contracts or legal entities sold and derecognized from the targeted amendments in ASU 2018-12.

Effective in 2023 only for SEC filers that are not eligible to be a smaller reporting company.

Standards issued Q1 2023 (SAB74)



ASU

Summary

Effective?

ASU 2023-02, Accounting for investments in tax credit structures using the proportional amortization method (PAM)

- Clarifies the criteria that a tax equity investment must meet to qualify for the PAM.
- Allows an investor to elect the PAM for qualifying investments on a tax credit program-by-program basis.
- Disclosures are required on an interim and annual basis for tax equity investments within tax credit programs for which the PAM is elected, regardless of whether the PAM is applied.

- Public business entities – 2024
- All other entities – 2025
- Early adoption is permitted

ASU 2023-01, Common control lease arrangements

- *Private entities* are permitted to use any written terms and conditions between the parties – without regard to their legal enforceability – to identify, classify and account for common control leases.
- *All lessees (public or private)* will, in general, amortize leasehold improvements related to a common control lease over their ‘useful life’ to the common control group – regardless of the ASC 842 ‘lease term’ – as long as they continue to control the use of the underlying leased asset.

- All entities – 2024
- Early adoption is permitted

FASB projects – 2023 outlook



Project	Summary	Status
Accounting for/disclosure of crypto assets	<ul style="list-style-type: none">• New Codification Subtopic on crypto assets would address scope, measurement, presentation and disclosure, and transition and effective dates; it would apply equally to public and private entities	Proposed ASU issued (comments due June 6)
Income tax disclosures	<ul style="list-style-type: none">• Intends to improve the transparency and decision usefulness of income tax disclosures, and will primarily focus on disclosures related to the rate reconciliation and income taxes paid.	Proposed ASU issued (comments due May 30)
Disaggregation of income statement expenses	<ul style="list-style-type: none">• Project intends to improve the decision-usefulness of income statements through the disaggregation of expense line items, such as employee compensation, depreciation and amortization.	Proposed ASU anticipated Q2 2023

Note: Not a complete list of in-process FASB projects. Refer to the [FASB technical agenda](#) at FASB.org for additional, up-to-date information

FASB projects – 2023 outlook



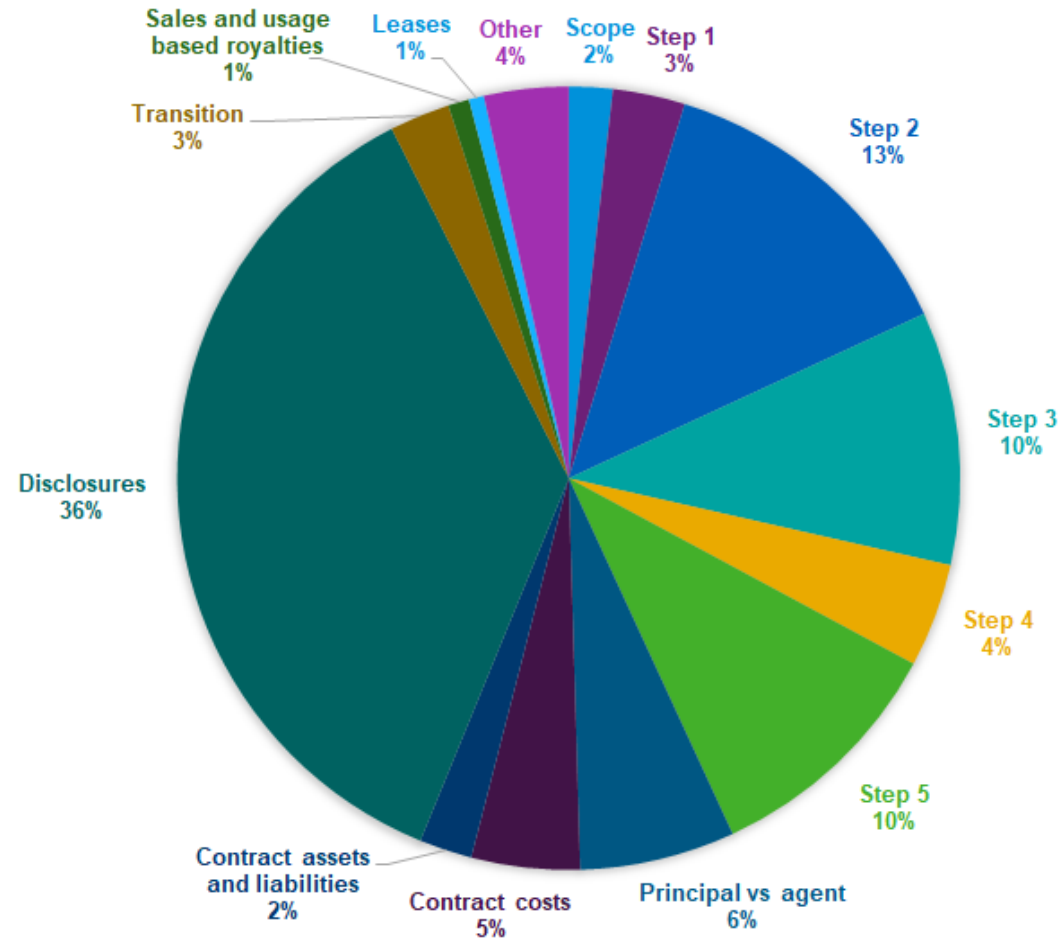
Project	Summary	Status
Segment disclosures	<ul style="list-style-type: none">• Would require <i>public</i> entities to disclose the significant expense categories in each reportable segment, in addition to all of the segment disclosures currently required.	Final ASU anticipated (Q2/Q3 2023)
Software costs	<ul style="list-style-type: none">• Would address recognition, measurement, presentation and disclosure of software costs• Objectives are to modernize the software cost accounting guidance in US GAAP and enhance the transparency of entities accounting for those costs.	Board deliberations

Note: Not a complete list of in-process FASB projects. Refer to the [FASB technical agenda](#) at FASB.org for additional, up-to-date information

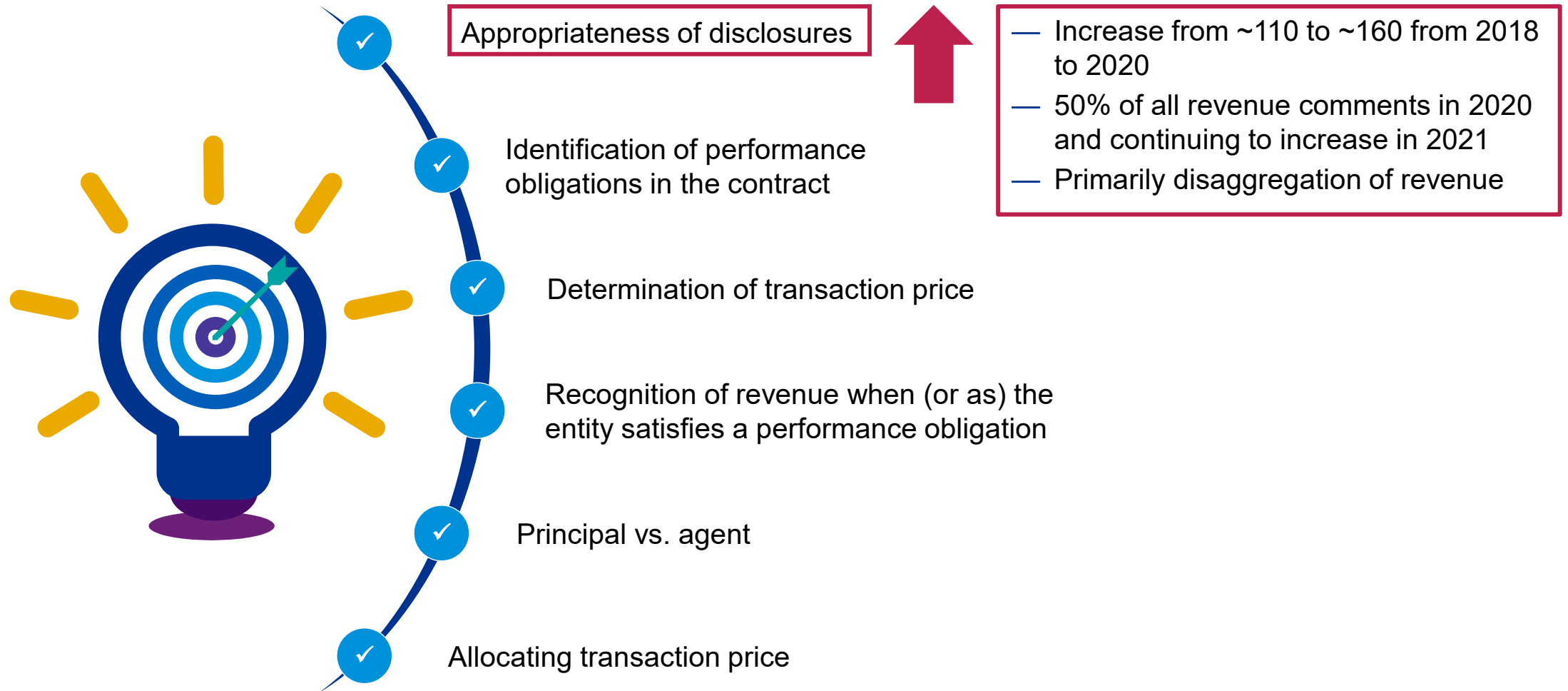


Revenue Recognition

Revenue comments since ASC 606 adoption



Comment letters on revenue



Example comments (1)

Disaggregated revenue disclosure



- We note you disaggregate revenue by product and service within your three reportable segments. Please tell us what consideration you gave to further disclose revenue by major product lines pursuant to the guidance in ASC 606-10-50-5 and ASC 606-10-55-90 and 55-91. For example, we note that your X service revenues includes the X product line, which has been a topic of discussion on your earnings calls and appears to be affected by economic factors.
- Please expand your disclosure to present disaggregated revenue by categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Refer to ASC 606-10-50-5 through 50-7 and ASC 606-10-55-89 through 55-91.



Example comments (2)

Remaining transaction price disclosure



We note that a "majority" of your remaining performance obligations will be recognized in 24 months. Considering your multi-year arrangements, please tell us in what periods you expect to recognize the amounts included in the "majority" and how your current disclosures reflect the appropriate time bands for your arrangements. In that regard, please tell us how you considered disclosure around revenue expected to be recognized within 1 year, 2 years etc. Refer to ASC 606-10-50-13(b).



Example comments (3)

Step 2 – Identification of performance obligations



We note you have determined to combine your software solution as a single performance obligation. We further note that this single performance obligation includes hardware, software licenses, and support and maintenance. Explain in greater detail how you concluded that each of these components should be combined into a single performance obligation. Refer to ASC 606-10-25-14 through 25-22.

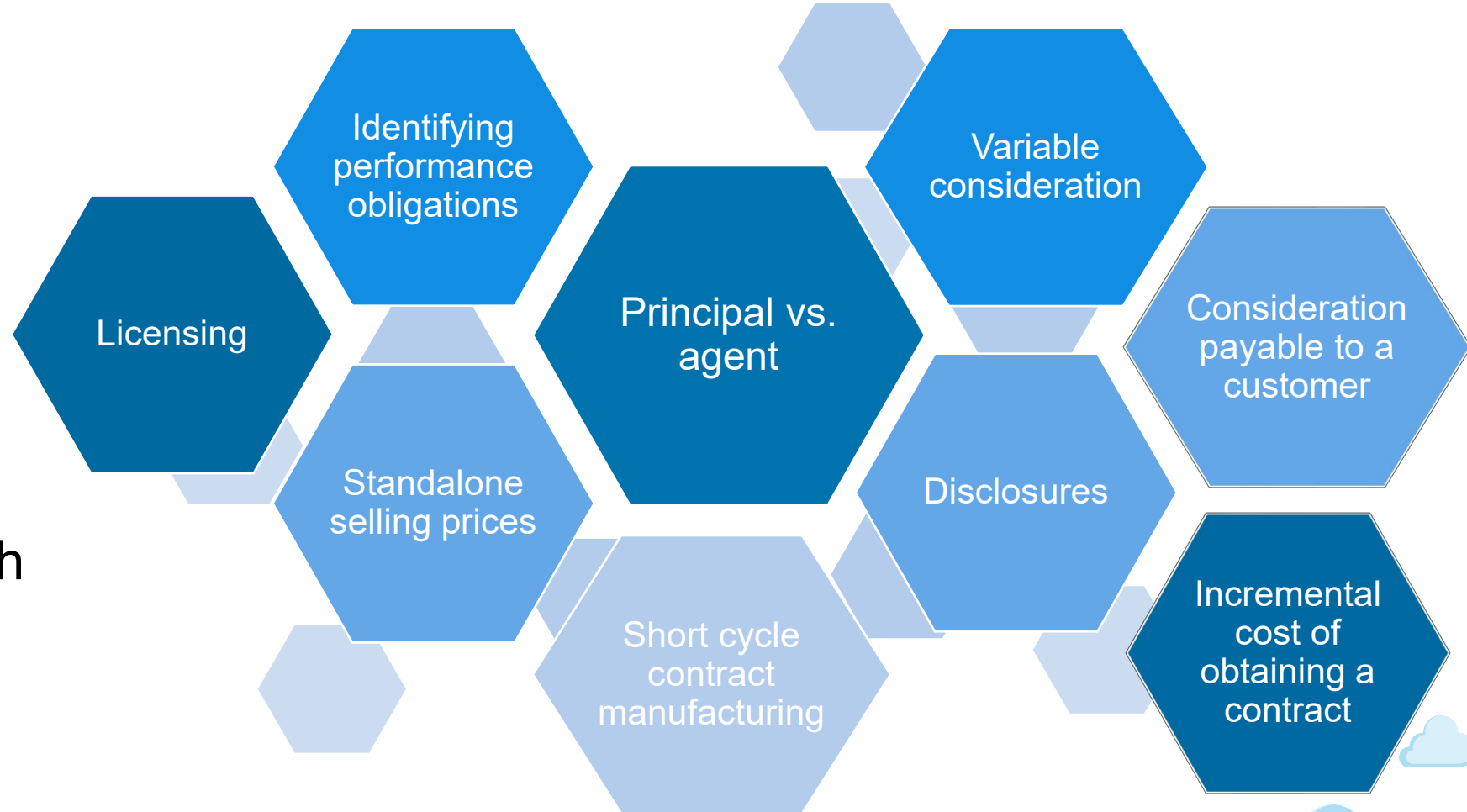


ASC 606 Post-Implementation Review

Status of the 3 PIR stages

1. Post-Issuance-Date Implementation Monitoring
2. Post-Effective-Date Evaluation of Costs and Benefits
3. Summary of Research and Reporting

Areas with challenges identified from public company PIR:





Technology in the Audit

An Explosion of Data

How do we obtain decision-relevant information from this explosion of data?

Every **60 seconds** on the internet

69k+
Photos & videos share on [Instagram](#)

694M
Streamed Songs

694k+
Videos view [TikTok](#)

12.5k
Ride shares [Uber](#)



347k+
Stories posted [Instagram](#)

139
Ads clicked [Instagram](#)

1.4M
Video and [Voice Calls](#)

390k+
Downloaded [Apps](#)

The Answer is...

...Technology

Execute tech-enabled, data-driven audit that delivers:



■ **Digital/Technology Tools**



■ **Data & Analytics (D&A)**



■ **Automation**

Client Collaboration:

Real-time transparency and coordination

Data Extraction & Transformation:

A streamlined data extraction and transformation process, leveraging our client's investments in technology



Risk Assessment:

Enhanced quality, through a more focused, deliberate, and precise risk assessment powered by data analysis solutions

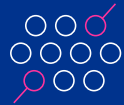
Response to Risk:

A more efficient testing process with automation supporting both internal control and substantive testing.

Purpose of D&A and Technology

Integrated, Intuitive & Scalable

Agility to streamline and tailor the audit approach for a proper fit



Visualize Risk

Seeing business risk more clearly increases audit precision and reduces burden



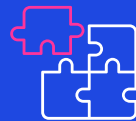
Quality > Quantity

As the quality of evidence increases, the need for additional corroborating evidence decreases



Simplify the Complex

Extracting data from systems & source documents for intuitive analysis and driving quality evidence



Deeper Insights

Gaining efficiencies to focus efforts more on more relevant and high- risk audit areas



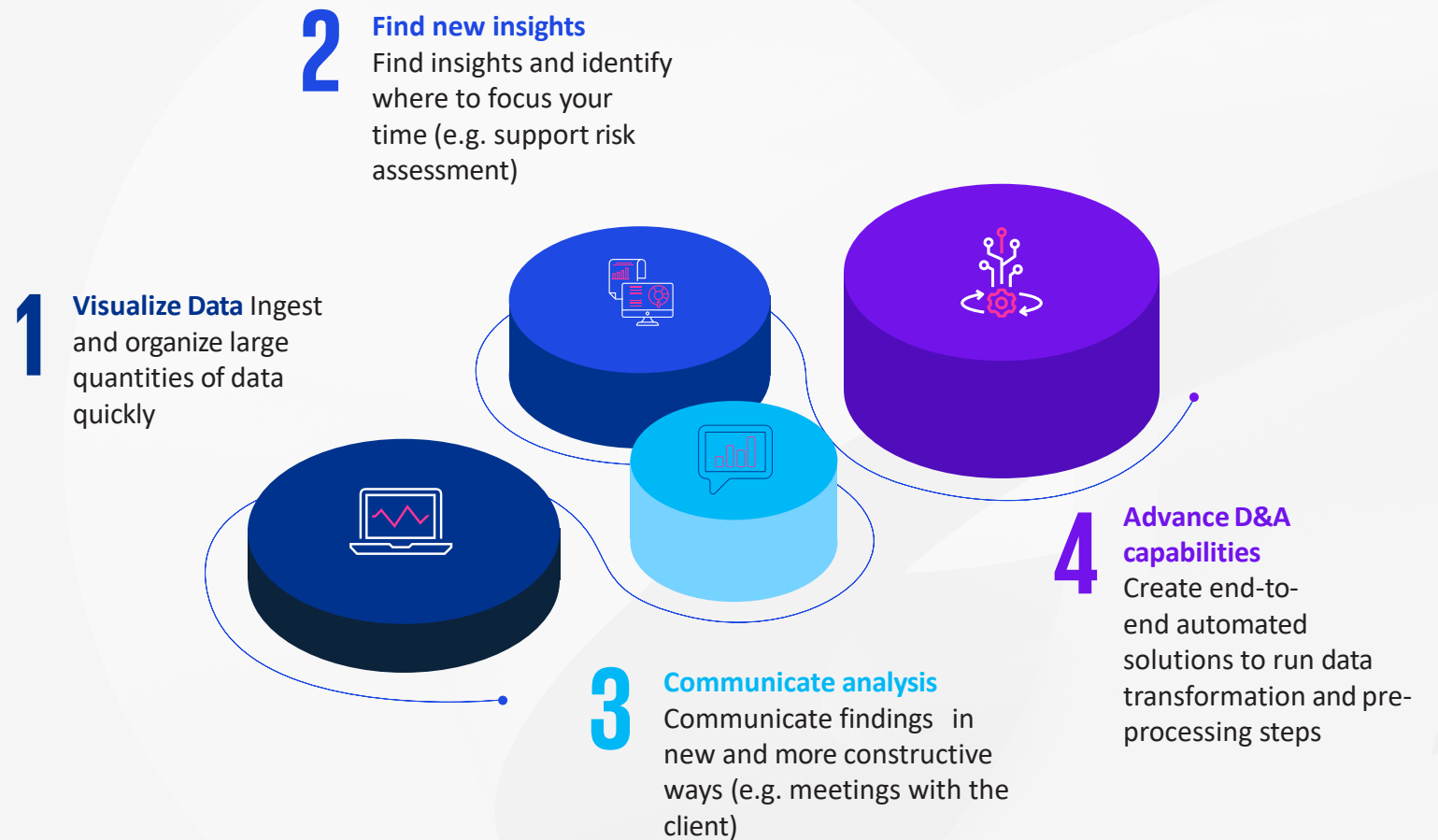


Types of Technology ○

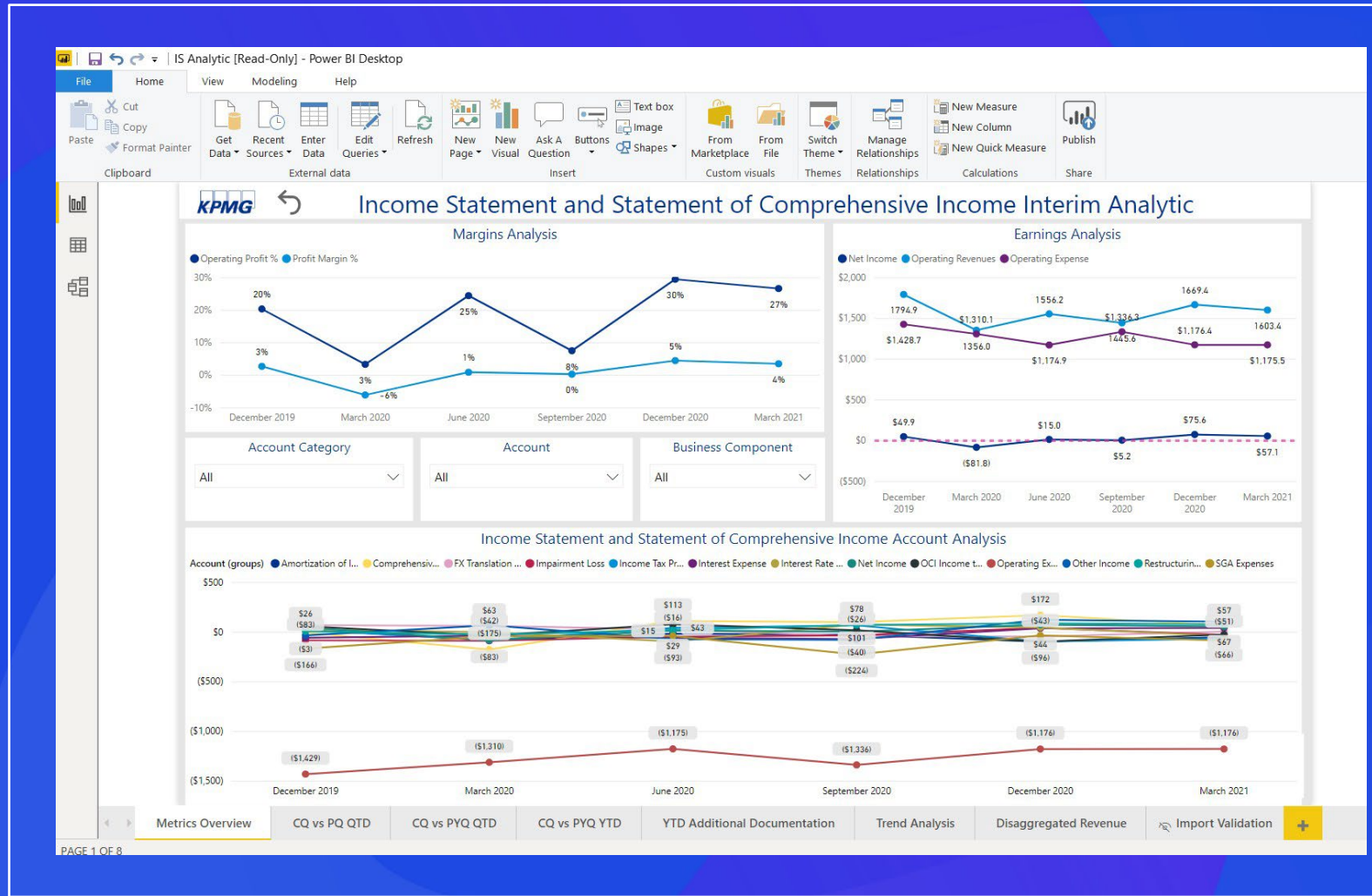
- Power BI
- Alteryx
- SmartGlasses
- DataSnipper

What is Power BI?

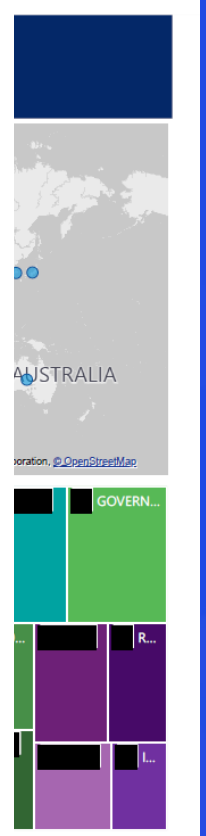
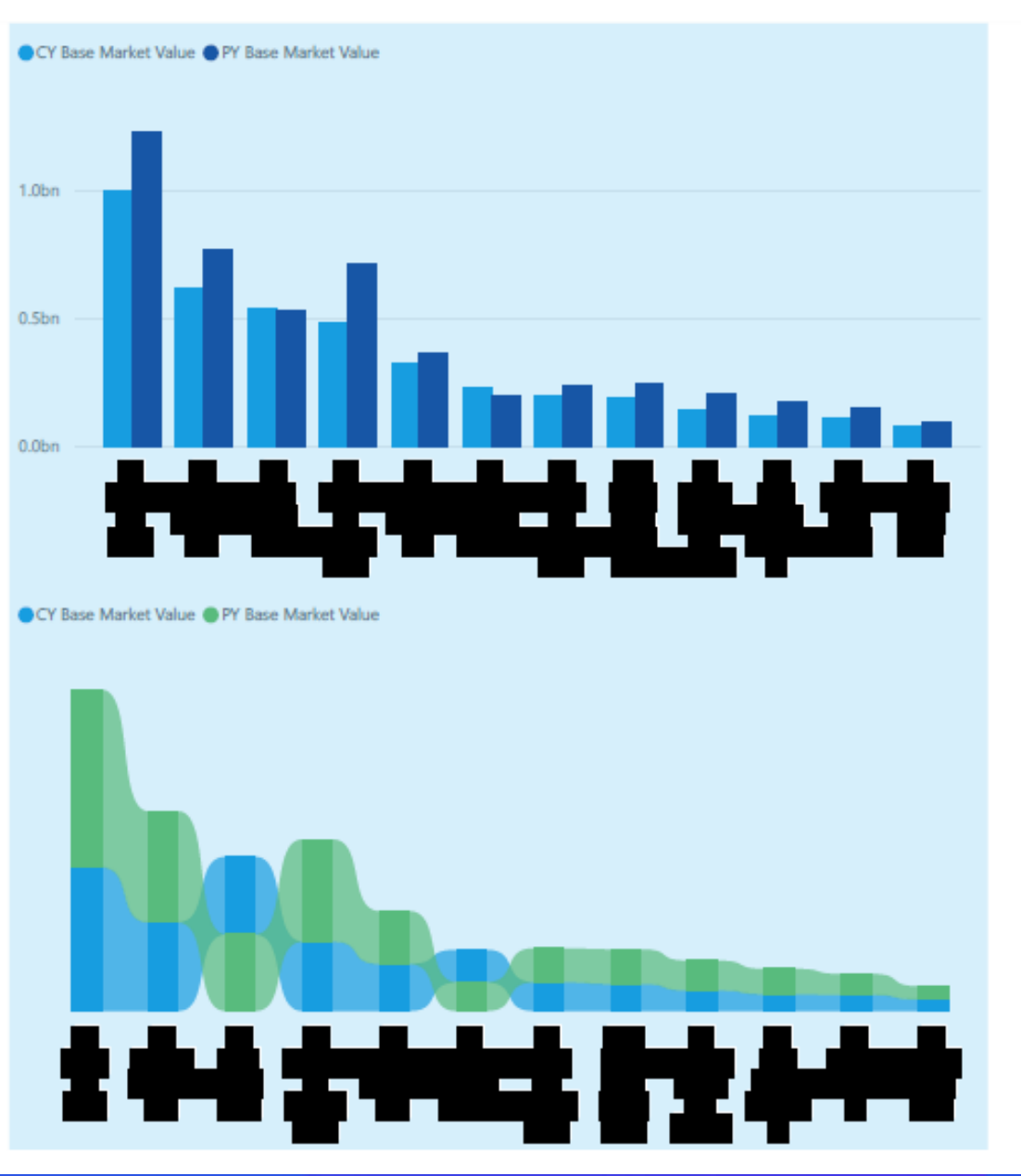
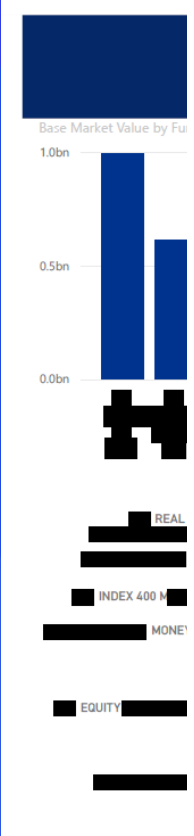
Data visualization software that enables analysis through dashboards



Example: Power BI Output



Example: Power BI Risk Assessment



What is Alteryx?

Low-code platform

Low-code platform with drag- and-drop interface used for data transformation and analytics



Easy data transformation Access, cleanse and join data in any format; Prepare data for reports, presentations, visualizations, or to feed downstream processes

Build your own routine

Create a workflow to document, automate, and repeat manual data manipulation tasks



Server solution available The Alteryx Server hosts widely applicable engines that can be leveraged by anyone and does not require a desktop license



Benefits of Alteryx

1 {>-}

Simplicity

It is intuitive with a drag-and-drop interface that requires minimal scripting.

2 ≡ ↻

Speed

Specially designed tools efficiently perform data cleansing and transformation that could take significantly longer in alternative software.

3 ⚙

Power

Handles more data and performs better than Excel

4 ⚙

Automation Workflows capture all steps so they are repeatable and can automate manual tasks to prepare data

5 🔍

Clarity

Workflows create a visual and auditable trail of all changes made to the data that's easy to follow, capture and document—better enabling the review of work done.

With Alteryx, our professionals can get data into the format they need for a variety of use cases across the audit in a way that's automated, efficient, repeatable and scalable.

Alteryx Example:

Data Preprocessing (Trial Balances)

What's the problem to solve?

- We need to analyze the client's trial balance for risk assessment, but first need to get the data from 55 separate trial balances into a single source
- Client provided 31 Excel files with data:
 - One file has 25 trial balances, each one in a different tab
 - 30 files each contain a single trial balance in a single tab

How is this handled today?

- Engagement team manually copy/paste each trial balance into one Excel file— every time data is received (e.g. quarterly) or any time the client updates any of the files
- It's time consuming, manual work and potentially prone to mistakes if files are not copied correctly

How can Alteryx Designer be used?

- Create a simple, repeatable workflow that aggregates the files into one Excel spreadsheet



What are the benefits of Alteryx Designer?

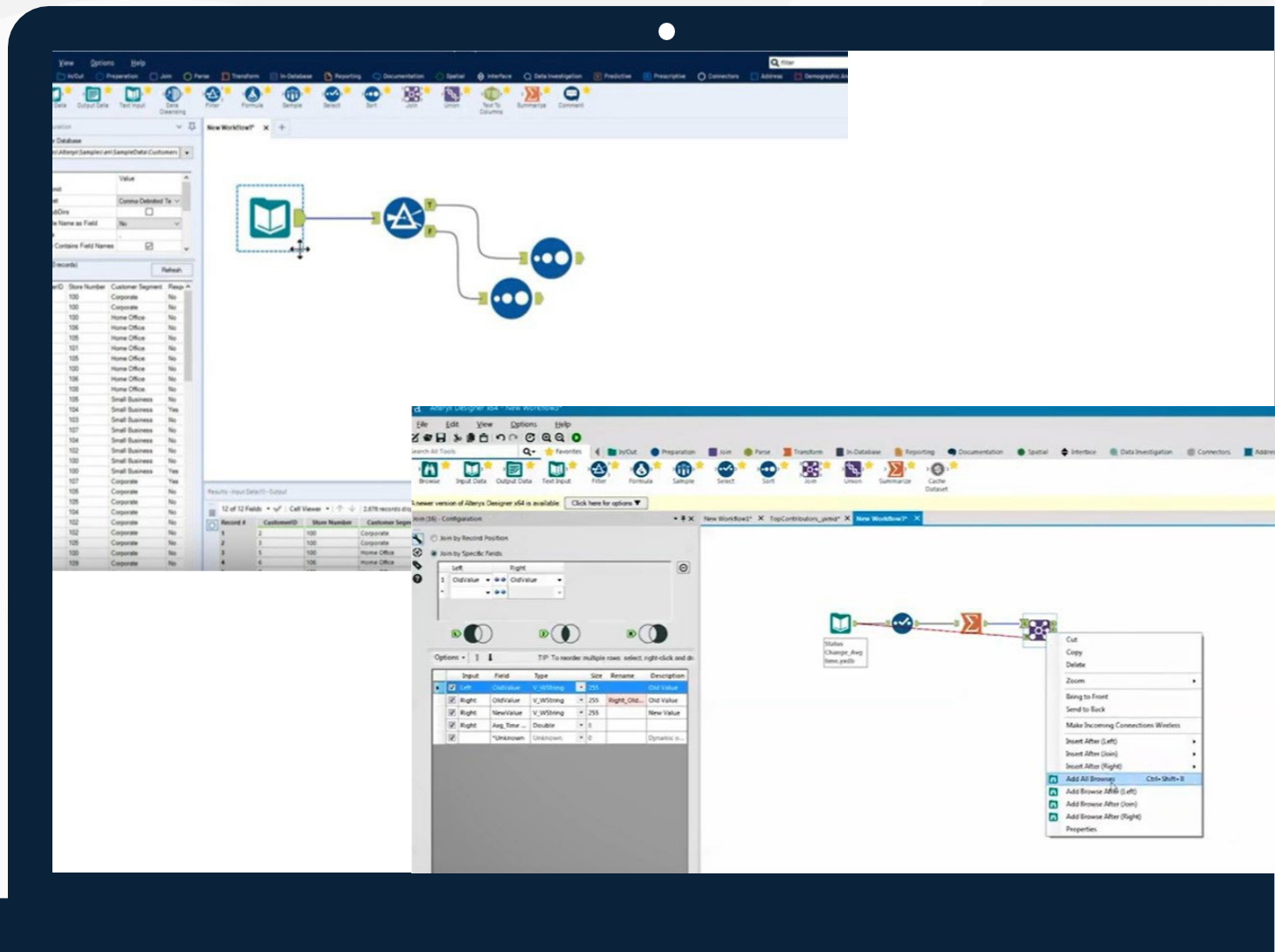
- **Saves time and reduces manual work:** The workflow can be developed in minutes
- **Repeatable process:** New data can be uploaded and the workflow re-run quickly and easily
- **Auditable trail:** Steps performed are clearly documented, which allows for an easier review

Other Alteryx Examples

How else can
Alteryx Designer
be used?

- Automate scoping of components
- Automate preparation of planning analytic fluxes
- Automate generation of lead sheets
- Recalculate 100% of contract or SaaS revenue (and deferred revenue)
- Automate revenue three way match
- Automate reconciliation of revenue to cash
- Automatically match cash disbursements to accrual/AP subledger for SURL
- Automate matching of cost of goods sold for substantive testing
- Automate recalculation of commissions expense (sample or 100%)
- Automate 100% recalculation of intangible amortization
- Automate matching of inventory purchases for substantive testing
- Automate testing of journal entry completeness/ perform account rollforwards
- Automate tie out of trial balance to financial statements
- Combine multiple files into one to prepare for sampling (e.g. from multiple entities/company codes or time periods)
- “Scrubbing” transaction populations prior to sampling (i.e. removing net debit/credit transactions)
- Removing intercompany transactions from a population
- Identifying specific items for testing based on set criteria from a population
- Automate generation of testing template from samples selected list
- Automate generation of PBC (Prepared by Client) list for samples selected
- Disaggregate journal entry transaction data into separate populations for sampling

Example: Alteryx in the Healthcare Audit



Increased Audit Evidence, Decreased Time!

Pre-Alteryx

1. Obtain data from the client
2. Test underlying detail – sample items per valuation model – 50 hours
3. Recalculate management’s valuation model(s) – 10 hours
4. Perform retrospective review – 20 hours

212 hours
saved, or just
over 5 weeks
of staff time!

With the Automated Industry Routine

1. Obtain data from the client
2. Test underlying detail and perform rollforward of 100% of patient accounts during the year – 8 hours
3. Calculate independent valuation allowance – 0 hours, included in step 2
4. Perform retrospective review – 0 hours, included in step 2
5. Leverage data to provide analysis to the audit team and management – outputs available by payor and location.

Smart Glasses

Smart glasses for audit procedures is a wearable headset that enables live video stream of what the wearer sees to your computer and allows interactivity with the wearer.



First in industry to use Augmented Reality



Enhanced employee & product safety



Deliver an exceptional client experience



Innovate our audit processes, governance, and service delivery model

Used to observe physical assets or process walkthroughs in connection with our audit procedures.



What is DataSnippet?

DataSnippet is an Excel-based digital assistant used to accelerate documentation and review process of common audit tasks.

1

Excel Add-In

Easy access to all audit and advisory employees

2

Extract data from PDFs

Use various **snip** types to extract data into Excel

3

Automation

Document Matching and **Form Extraction** help reduce time and effort performing manual procedures

4

Quick Navigation

Snips created connect reviewers directly to the location in the source file

5

Financial Statement Suite

Find All Sums and **Financial Statement Suite** support footing, crossfooting, and tie out of financial statements

Benefits of DataSnipper



Saves time—can automate manual and repetitive tasks.



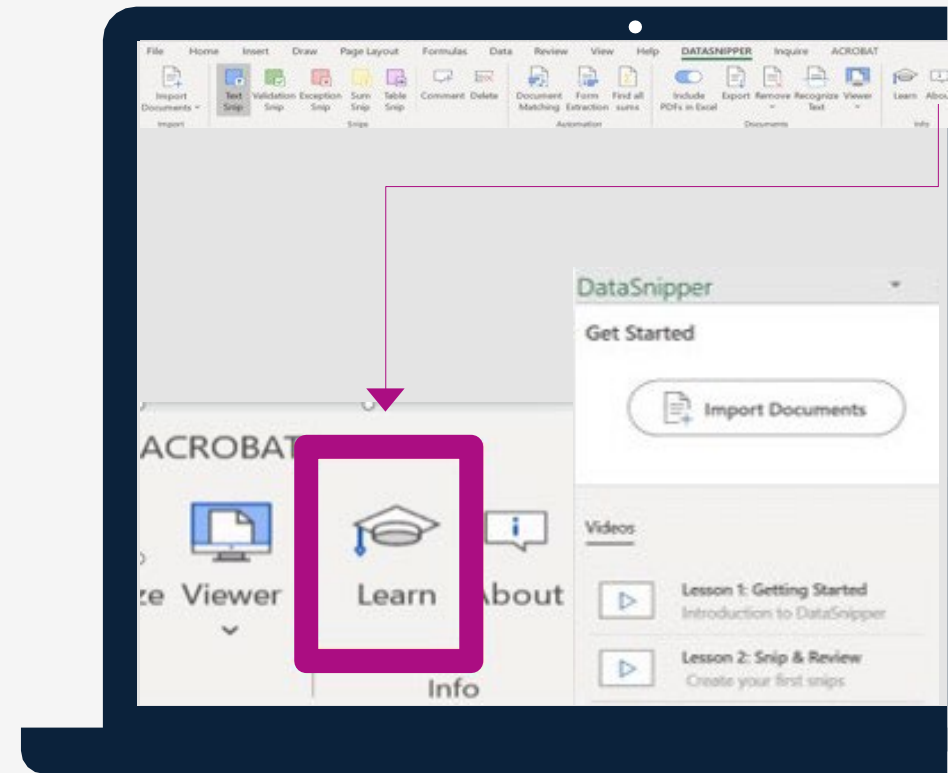
Can improve accuracy by eliminating manual transcription errors.



Can easily navigate and review source files.



Efficiencies gained allows you to focus more time on high-risk areas.





**Advice to
aspiring
interns & new
associates.**

What Can You Do Now?

- Appreciate database design
- Expose yourself to collection, cleaning and analysis of data
- Practice your communication with visualization tools

Gain data and analytics skills

- Understand the audience & how to tell the story
- Take advantage of team projects
- Practice, practice, practice!

Learn effective communication



Stay current on trends and seize industry opportunities

- Take advantage of your education
- Educate outside of the classroom
- Volunteer



Challenge yourself to think critically

- Ask “why” in the classroom (i.e. ask yourself, “could this be done differently/better?”)
- Understand “how do they make money”
- Capitalize on electives







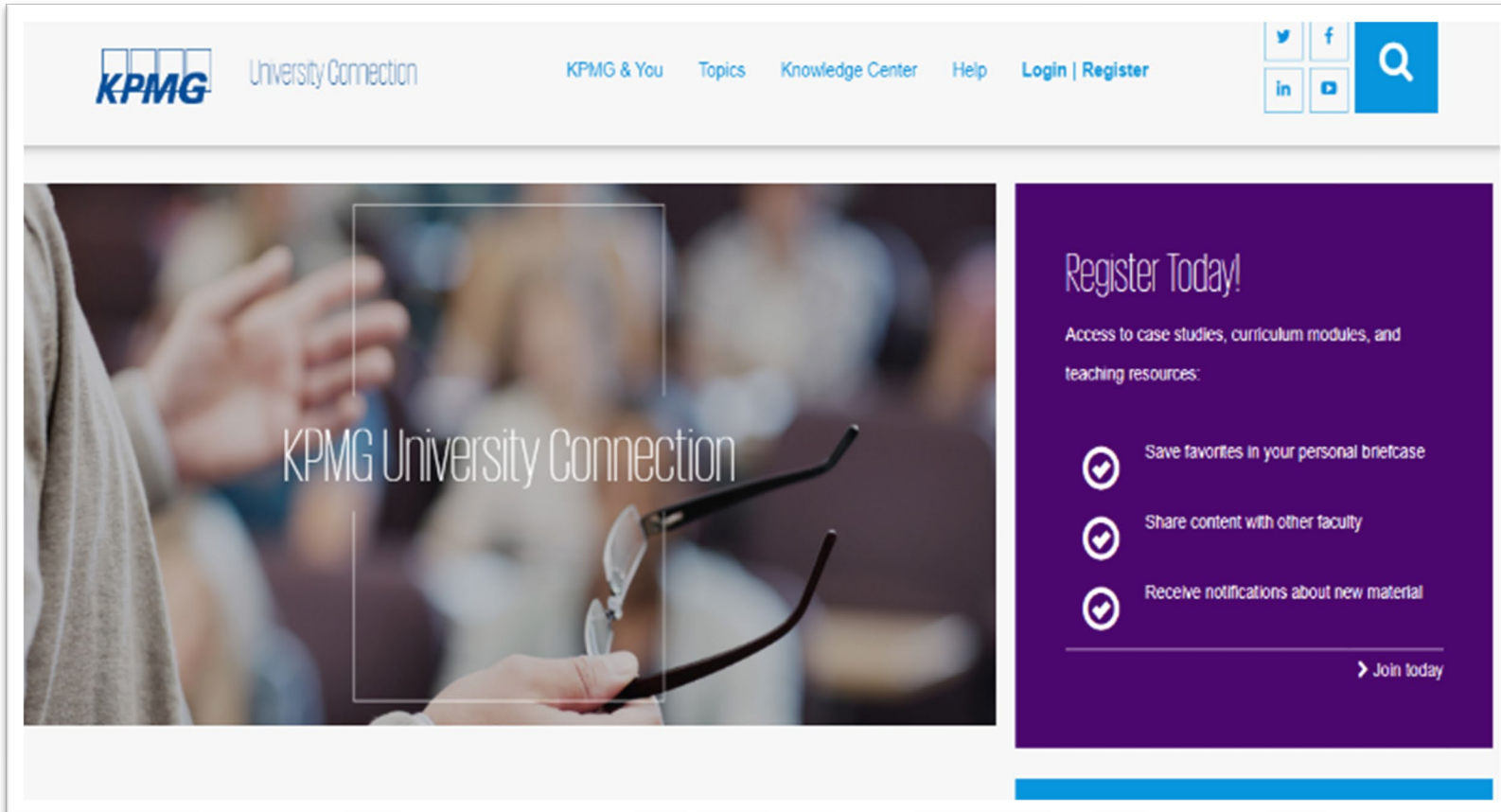
Faculty Resources



KPMG University Connection Site

For access to curriculum materials developed by leading academics, in collaboration with KPMG Partners and Professionals, please register for a free account or log in at www.kpmguniversityconnection.com

Topics include: Audit • Tax • Financial Accounting • Corporate Governance • Professional Judgment • IFRS • Sustainability • Ethics



Most Popular Modules

- ✓ ESG Externalities and True Value
- ✓ Ethical Compass Toolkit
- ✓ KPMG Professional Judgment Monograph
- ✓ Audit D&A Case Study

Coming Soon!

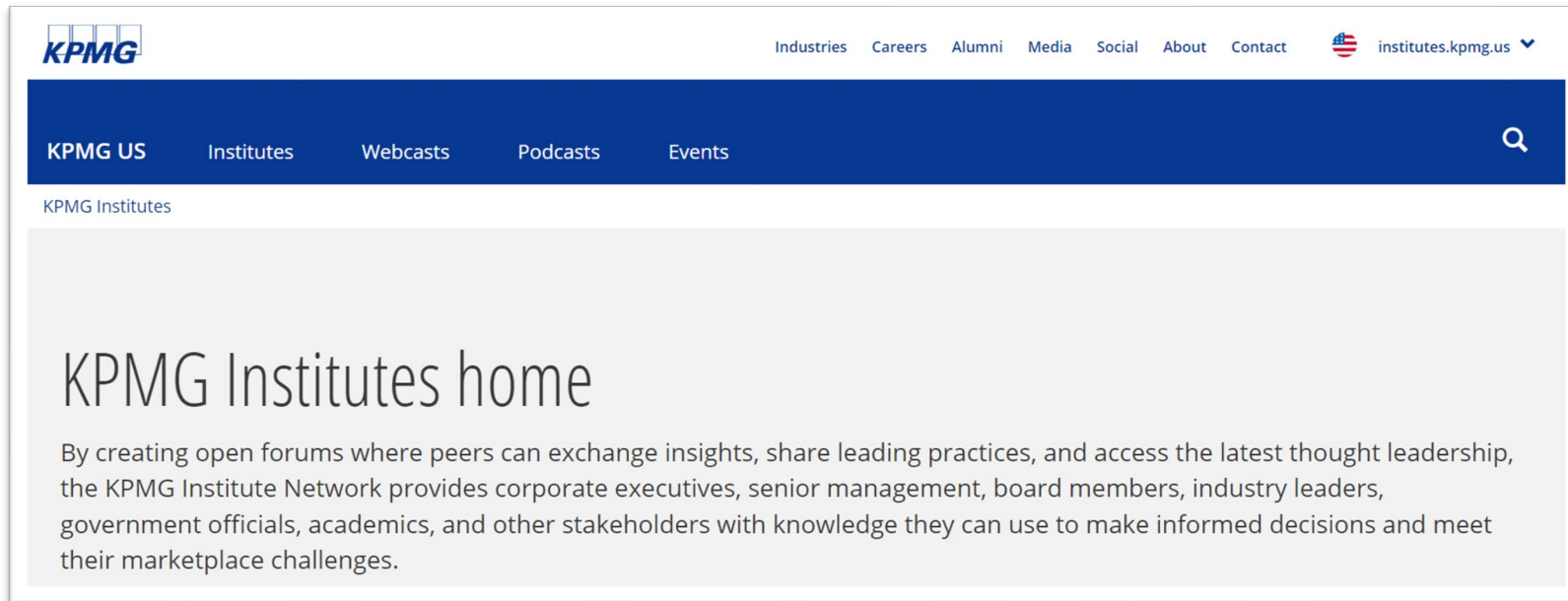
Additional ESG Cases





KPMG Institutes Site

KPMG Institutes creates open forums where peers can exchange insights, share leading practices, and access the latest thought leadership. For free access log on to institutes.kpmg.us.



Specific Institute Pages

- ✓ Advisory
- ✓ Audit Committee
- ✓ Financial Reporting View
- ✓ Global Energy Institute
- ✓ Private Enterprise Institute
- ✓ Government Institute
- ✓ Healthcare and Life Sciences Institute
- ✓ IFRS Institute
- ✓ TaxWatch Webcasts and Tax Governance Institute
- ✓ US Manufacturing Institute





Questions?



Thank you

Connect with me on LinkedIn:

<https://www.linkedin.com/in/andreachung-0a486770>

andreachung@kpmg.com





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