



CAQ Alert #2009-39 – April 24, 2009

## DEAR CENTER MEMBERS

### [PCAOB Issues Staff Audit Practice Alert No. 4 on Fair Value and OTTI](#)

On April 21, 2009, the [Public Company Accounting Oversight Board](#) (PCAOB) [announced](#) the issuance of Staff Audit Practice Alert No. 4, [Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments](#) (Practice Alert).

#### **Background**

On April 9, 2009, the [Financial Accounting Standards Board](#) (FASB) issued three FASB Staff Positions (FSPs):

- [FSP FAS 157-4](#), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*
- [FSP FAS 115-2 and FAS 124-2](#), *Recognition and Presentation of Other-Than-Temporary Impairments (OTTI)*
- [FSP FAS 107-1 and APB 28-1](#), *Interim Disclosures about Fair Value of Financial Instruments*

Please refer to [CAQ Alert #2009-34](#) for a summary of the above-mentioned FSPs.

Auditors should be aware that some PCAOB standards include descriptions of accounting requirements that are no longer current when considering the effects of the FSPs on their audits and reviews. FASB accounting standards are recognized by the [Securities and Exchange Commission](#) (SEC) as generally accepted. Auditors should look to FASB standards and to the requirements of the SEC, rather than the standards of the PCAOB, for current accounting requirements and disregard descriptions of accounting requirements in PCAOB standards that are inconsistent with the FSPs.

Below is a summary of the PCAOB's Practice Alert. We encourage members to review the complete document by clicking on the respective link above.

The purpose of the Practice Alert is to inform auditors about potential implications that the FSPs may have on interim reviews of financial information and annual audits. The Practice Alert addresses the following topics:

1. Reviews of Interim Financial Information

- As part of interim review procedures, if relevant to the company, auditors should inquire about the implementation of the FSPs to appropriate members of management.
- Auditors should consider whether the implementation of the FSPs presents any matters to be communicated to the audit committee.
- The following relevant guidance was referenced within this section of the Practice Aid:
  - [AU sec. 722](#), *Interim Financial Information*
  - [AU sec. 380](#), *Communication with Audit Committees*

2. Audits of Financial Statements, Including Integrated Audits

- As it relates to FSP FAS 157-4, under AU sec. 328, *Auditing Fair Value Measurements and Disclosures*, auditors are required to do the following, among other things:
  - Obtain an understanding of the company's process for determining fair value measurements and disclosures.
  - Understand relevant controls sufficient to assess the risk of material misstatement and to plan the nature, timing and extent of audit procedures.
  - Perform substantive testing of fair value measurements and disclosures including:
    - Testing management's significant assumptions, the valuation model, and the underlying data.
    - Developing independent fair value estimates for corroborative purposes.
    - Reviewing subsequent events and transactions.
- As it relates to FSP FAS 115-2 and FAS 124-2:
  - The auditor is required to evaluate a company's conclusions about the need to recognize an impairment loss.
  - When a company has recognized an impairment loss, the auditor should gather evidence supporting the amount of the impairment adjustment recorded and determine whether the company has appropriately followed generally accepted accounting principles (GAAP).
  - The auditor's objective is to obtain sufficient competent evidential matter to provide reasonable assurance that the estimates are reasonable in the circumstances and that they are presented and disclosed in conformity with GAAP.
  - In evaluating the reasonableness, the auditor should gain an understanding of how the company developed the OTTI estimates.
- The auditor should discuss any accounting changes due to the implementation of the FSPs and other related topics with the audit committee as part of the audit.

- The following references were included in this section of the Practice Aid:
  - [AU sec. 328](#), *Auditing Fair Value Measurements and Disclosures*
  - [AU sec. 342](#), *Auditing Accounting Estimates*
  - [AU sec. 380](#), *Communication with Audit Committees*
  - SEC Securities Exchange Act of 1934, [Section 10A\(k\)](#)

### 3. Disclosures

- The auditor should evaluate whether financial statement disclosures are in conformity with the FSPs.
- The auditor should read other information accompanying the interim and annual financial statements contained in reports filed with the SEC for discussions regarding fair value measurements and OTTI. The auditor should consider whether that information and its presentation is materially inconsistent with the financial statements.
- Auditors should consider the effect that any material inconsistencies may have on the audit report and/or financial statements. If the auditor concludes that the financial statements or audit report do not require revision, the auditor should request the company to revise the other information.
- The following references were included in this section of the Practice Aid:
  - [AU sec. 431](#), *Adequacy of Disclosure in Financial Statements*
  - [AU sec. 550](#), *Other Information in Documents Containing Audited Financial Statements*
  - [AU sec. 722](#), *Interim Financial Information*
  - [SEC Release No. 33-8040](#), *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*
  - [SEC Release No. 33-8350](#), *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*

### 4. Auditor Reporting Considerations

- The auditor should evaluate whether the company's accounting for and disclosures of the changes are in accordance with the FSPs.
- To identify consistency matters that might affect the auditor's report, the auditor should evaluate whether the comparability of the financial statements between periods has been materially affected by changes in accounting principles.
- A change in accounting principle that has a material effect on the financial statements should be recognized in the auditor's report through the addition of an explanatory paragraph.
- The following reference was included in this section of the Practice Aid:
  - [Auditing Standard No. 6](#), *Evaluating Consistency of Financial Statements*

The Practice Alert highlights certain areas, but is not intended to serve as a substitute for the relevant auditing standards.

## Other Related Resources

[CAQ Web Resource](#)

*Auditing in a Changing Economy: CAQ Resources*

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## Stay Informed

As a member of the CAQ, you will receive timely communication of regulatory developments and technical updates on important matters related to various standard-setters, regulators and others, as well as the activities of the CAQ. To stay abreast of these and other relevant events in public company audit practice, please visit the CAQ Web site at [theCAQ.aicpa.org](http://theCAQ.aicpa.org). Also, we welcome any suggestions or questions - please send them by email to [center@theCAQ.org](mailto:center@theCAQ.org).

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