



December 2018

As part of the Center for Audit Quality's ongoing effort to keep members and stakeholders informed on significant public policy and accounting matters, we are pleased to offer the Public Policy and Technical Alert (PPTA). Each month, the PPTA highlights and examines the regulatory, standard-setting, legislative, and broader financial reporting developments impacting the public company audit profession. Please note that the PPTA is intended as general information and should not be relied upon as being definitive or all-inclusive. The CAQ encourages member firms to refer to the rules, standards, guidance, and other resources in their entirety at the hyperlinks provided below. All entities should carefully evaluate which requirements apply to their respective organizations.

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Upcoming Events

PCAOB

PCAOB adopts new estimates standard and amendments related to using the work of specialists

On December 20, the PCAOB adopted a [new standard](#) to enhance the requirements that apply when auditing accounting estimates, including fair value measurements. The PCAOB also adopted [amendments to its auditing standards](#) to strengthen requirements that apply when auditors use the work of specialists in an audit.

The new estimates standard replaces three standards with a single, uniform standard that sets forth an updated approach to auditing accounting estimates. It emphasizes that auditors need to apply professional skepticism, including addressing potential management bias, when auditing accounting estimates. Additionally, the new standard provides more specific direction on auditing fair values of financial instruments that are based on information from third-party pricing sources.

The amendments aim to strengthen the requirements for evaluating the work of a company's specialist, whether employed or engaged by the company. They also apply a supervisory approach to both auditor-employed and auditor-engaged specialists.



Pending SEC approval, the new estimates standard and amendments on the auditor's use of the work of specialists will be effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

PCAOB publishes Inspections Outlook for 2019

On December 6, the PCAOB Division of Registration and Inspections (Division) posted to the PCAOB website the [Inspections Outlook for 2019](#) (Outlook). The Outlook provides the Division's objectives and potential focus areas for planned 2019 inspections of audits of issuers and brokers and dealers.

The Division is considering topics such as the procedures performed on the review of specific engagements and systems of quality control, its approach to selecting engagements for inspection and areas of focus, and how and what it communicates about inspections. The Division also is considering how to make its process forward-looking and how to more effectively consider evolving risks, environmental factors, and the changing needs of stakeholders.

Megan Zietsman named Chief Auditor

On December 13, the PCAOB announced that it had named [Megan Zietsman](#) as the next Chief Auditor and Director of Professional Standards. She is expected to assume her new role in early 2019.

Zietsman will lead the PCAOB's efforts to set and interpret standards for the audits of domestic and foreign public companies whose securities trade in the U.S., as well as the audits of SEC-registered brokers and dealers. As Chief Auditor, she will represent the PCAOB in meetings with the SEC, FASB, and IAASB, among other regulatory and standard-setting organizations. She will have a key role in communicating with investors, auditors, preparers, and audit committees with respect to the matters on the PCAOB's research and standard-setting agendas and the implementation of current standards.

Zietsman has 30 years of experience in the auditing profession. She is currently a Partner in Deloitte & Touche LLP's (Deloitte) professional practice network in the U.S., where she is responsible for audit standard-setting, the implementation of new and revised standards and rules, and all talent-related processes and initiatives. She began her career with Deloitte in South Africa in 1989 before moving to New York to join Deloitte's International Operations group in 1994 and later the Transaction Services group in 1998.

She has served on the IAASB since 2014, currently as the Deputy Chair. She also served on the AICPA's Auditing Standards Board (ASB) from 2007-2011.



PCAOB creates new pages on implementation of standards and rules

The PCAOB published new web pages on the [implementation of PCAOB standards and rules](#). The new pages, the [New Auditor's Report](#) and [Form AP](#), currently include overviews, resources, and other relevant information.

PCAOB issues post-implementation review of AS 1220

The PCAOB published a [post-implementation review of AS 1220, Engagement Quality Review](#). The review of AS 1220 is the PCAOB's first post-implementation review. The review includes key findings, messages for auditors and audit committees, and enhancements to achieve more effective engagement quality reviews. Further details regarding the review, including technical details of the statistical analyses, are presented in a [separate staff white paper](#).

PCAOB provides annotated example of auditor's report for broker-dealer audits

The PCAOB posted on its website an [example of an unqualified auditor's report](#) on the financial statements of a broker or dealer reporting under Rule 17a-5 of the Securities Exchange Act of 1934 under [AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion](#). The example includes an unqualified auditor's report on the supplemental information and assumes no explanatory or emphasis paragraphs.

SEC

SEC, PCAOB issue statement on access to international audit information

On December 7, SEC Chairman Jay Clayton, SEC Chief Accountant Wes Bricker, and PCAOB Chairman William Duhnke issued a [statement](#) on the "Vital Role of Audit Quality and Regulatory Access to Audit and Other Information Internationally – Discussion of Current Information Access Challenges with Respect to U.S.-listed Companies with Significant Operations in China."

"Over the past decade, there has been substantial cooperation among international regulators to address...the timely flow of information reasonably necessary for capital markets regulators to carry out their oversight responsibilities," according to the statement. However, "issues relating to information access remain, and our experience leads us to expect that new access issues are likely to arise. One of the most significant current issues relates to the ability of the PCAOB to inspect the audit work and practices of PCAOB-registered auditing firms in China (including Hong Kong-based audit firms, to the extent their audit clients have operations in mainland China) with respect to their audit work of U.S.-listed companies with operations in China."



The statement discusses the roles of audit firms, the SEC, and the PCAOB in connection with the financial reporting and auditing of U.S.-listed companies and the need for international cooperation. The discussion also provides more detail on the current China-related information access issues.

SEC solicits public comments on earnings releases and quarterly reports

On December 18, the SEC published a [request for comment](#) soliciting public input on how the SEC can reduce burdens on reporting companies associated with quarterly reporting while maintaining, and in some cases enhancing, disclosure effectiveness and investor protections. In addition, the SEC is seeking comment on how the existing periodic reporting system, earnings releases, and earnings guidance, alone or in combination with other factors, may foster an overly short-term focus by managers and other market participants.

The deadline for submitting comments is March 21, 2019.

SEC approves 2019 PCAOB budget and accounting support fee

On December 19, the SEC [approved the PCAOB's 2019 budget](#) and related annual accounting support fee. The 2019 budget totals \$273.7 million. The accounting support fee totals \$262.9 million, of which \$228.5 million will be assessed on public companies and \$34.4 million will be assessed on broker-dealers.

The PCAOB's 2019 budget represents an increase of approximately five percent from its 2018 budget of \$259.9 million. The 2019 accounting support fee is approximately 12 percent higher than the 2018 accounting support fee of \$235.3 million.

SEC adopts final rules for disclosure of hedging policies

On December 18, the SEC [approved final rules](#) that require companies to disclose in proxy or information statements related to the election of directors any practices or policies regarding the ability of employees or directors to engage in certain hedging transactions with respect to company equity securities.

The final rules, which implement a mandate from the Dodd-Frank Act, will require disclosure of practices or policies in full, or, alternatively, a summary of those practices or policies that includes a description of any categories of hedging transactions that are specifically permitted or disallowed. If the registrant does not have any such practices or policies, it will disclose that fact or state that hedging is generally permitted.



Companies that do not qualify as smaller reporting companies (SRCs) or emerging growth companies (EGCs) must comply with the new rules during fiscal years beginning on or after July 1, 2019. Companies that qualify as SRCs or EGCs must comply during fiscal years beginning on or after July 1, 2020.

SEC adopts final rules to allow Exchange Act reporting companies to use Regulation A

On December 19, the SEC adopted [final rules](#) to allow reporting companies to rely on the Regulation A exemption from registration for their securities offerings. “Regulation A provides an exemption from registration under the Securities Act for offerings of securities up to \$50 million in a 12-month period,” said Chairman Jay Clayton. “The amended rules will provide reporting companies additional flexibility when raising capital.”

FASB

FASB issues new, proposed ASUs

The FASB issued one new Accounting Standards Update (ASU) on December 10:

- [ASU 2018-20, Leases \(Topic 842\): Narrow-Scope Improvements for Lessors](#)

The ASU is intended to reduce lessors’ implementation and ongoing costs associated with applying the new leases standard. Specifically, the ASU addresses the following issues facing lessors when applying the leases standard:

- Sales taxes and other similar taxes collected from lessees.
- Certain lessor costs paid directly by lessees.
- Recognition of variable payments for contracts with lease and non-lease components.

The ASU affects the amendments in ASU 2016-02, *Leases*, which are not yet effective but can be early adopted. The effective date and transition requirements for this ASU for entities that did not adopt Accounting Standards Codification (ASC) 842, *Leases* (ASC 842) prior to the issuance of ASU 2018-20 are the same as the effective date and transition requirements in ASU 2016-02 (for example, January 1, 2019, for calendar-year-end public business entities).

For entities that did adopt ASC 842 prior to the issuance of ASU 2018-20, the transition and effective date of the amendments in this ASU are as follows:



- An entity should apply the amendments at the original effective date of ASC 842 for the entity. Alternatively, the entity has the option to apply the amendments in either the first reporting period ending after the issuance of ASU 2018-20 (for example, December 31, 2018) or in the first reporting period beginning after the issuance of ASU 2018-20 (for example, January 1, 2019).
- An entity may apply the amendments either retrospectively or prospectively.

All entities, including early adopters, must apply the amendments in this ASU to all new and existing leases.

The FASB also issued two proposed ASUs:

- [Proposed ASU, Leases \(Topic 842\): Codification Improvements for Lessors](#)

Issued on December 19, the proposed ASU would align the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842, with that of existing guidance. It also would require lessors within the scope of Topic 942, *Financial Services – Depository and Lending*, to present all “principal payments received under leases” within investing activities.

The deadline for submitting comments is January 15, 2019.

- [Proposed ASU, Intangibles – Goodwill and Other \(Topic 350\), Business Combinations \(Topic 805\), and Not-for-Profit Entities \(Topic 958\): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities](#)

Issued on December 20, the proposed ASU would reduce the cost and complexity of accounting for goodwill and measuring certain identifiable intangible assets for not-for-profit organizations.

The deadline for submitting comments is February 18, 2019.

2019 GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy now available

On December 18, the FASB released the [2019 GAAP Financial Reporting Taxonomy](#) and [2019 SEC Reporting Taxonomy](#). Both taxonomies are pending final acceptance by the SEC.

The 2019 GAAP Financial Reporting Taxonomy contains updates for accounting standards and other recommended improvements.

The 2019 SEC Reporting Taxonomy contains elements necessary to meet SEC requirements for financial schedules required by the SEC, condensed consolidating financial information for guarantors, and disclosures about oil- and gas-producing activities. It also includes dimensional elements whose underlying recognition and measurement are not specified by GAAP but are elements commonly used by GAAP filers.

International

IFIAR releases Report on Survey of Audit Regulators' Enforcement Regimes

On December 14, the International Forum of Independent Audit Regulators (IFIAR) released its 2018 [Report on Survey of Enforcement Regimes](#) (Survey). The Survey sought information about members' enforcement programs, including enforcement powers and authority; structure of enforcement programs; handling and reporting of enforcement matters; history and trends relating to enforcement; and ideas for enforcement-related reform.

The Survey's findings underscore the extent to which IFIAR members have the authority to respond to auditor misconduct and enforce compliance with the rules, laws, and standards that govern the audit profession in different parts of the globe. The results also recognize the unique and critical role that enforcement plays in audit oversight.

IASB proposes clarifications for companies assessing whether contracts will be loss-making

On December 13, the IASB published [proposed amendments](#) to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, to specify which costs a company should include when assessing whether a contract will be loss-making.

A company determines that a contract will be loss-making – and describes it as onerous – if the costs the company expects to incur to fulfill the contract are higher than the economic benefits it expects to receive from it. The IASB proposes to amend IAS 37 to specify that the costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfill contracts.

The deadline for submitting comments is April 15, 2019.



IFRS Foundation proposes general improvements to IFRS Taxonomy 2018

On December 6, the IFRS Foundation published [IFRS Taxonomy 2018 – Proposed Update 2, General Improvements](#). The proposed changes aim to improve the quality of tagged data and to make the IFRS Taxonomy easier to use. General improvements include changes to the content and technical structure of the IFRS Taxonomy.

The deadline for submitting comments is February 4, 2019.

IAESB proposes revisions to international education standards

On December 4, the International Accounting Education Standards Board (IAESB) [proposed revisions to the learning outcomes](#) of International Education Standards 2, 3, 4, and 8, *Information and Communications Technology and Professional Skepticism*. The IAESB also proposed editorial changes to the standards' introductions, objectives, and explanatory materials sections.

The proposal speaks to strengthening professional skepticism to improve the quality of financial reporting and auditing and developing competence to meet information and communications technologies' disruptive potential. It also reflects significant stakeholder input, including findings from the IAESB's prior consultation on future strategy and priorities, as well as insights from surveys, academic and professional literature, roundtables, in-depth interviews, webinars and additional outreach.

The deadline for submitting comments is March 4, 2019.

FRC issues revised auditing standard covering accounting estimates

On December 12, the U.K. Financial Reporting Council (FRC) issued International Standard on Auditing UK 540, [Auditing Accounting Estimates and Related Disclosures](#), covering the audit of expected credit losses in banks and which reflects the increased importance and complexity of estimates in financial statements. Early adoption of the new standard is permitted and is encouraged. It is effective for audits of financial statements for periods beginning on or after December 15, 2019.

FRC announces Future of Corporate Reporting Advisory Group

On December 17, the FRC announced the [members of the Advisory Group](#) for its major project on the Future of Corporate Reporting. The Advisory Group will provide input and advice to the FRC as it develops the project, which will lead to recommendations for changes to regulation and practice.



The Advisory Group includes representatives from the FRC's major stakeholder groups – companies, investors, civil society groups, academics, auditors, audit committee chairs, lawyers, and design agencies. Members have been selected to ensure that there is an appropriate balance of members from different backgrounds.

CMA proposes reforms to improve competition in audit sector

The Competition and Markets Authority (CMA) [has published an update paper](#) outlining serious competition concerns and proposing changes to legislation to improve the audit sector for the benefit of savers and investors alike. It is now putting these proposals out for public consultation.

The CMA is proposing legislation to: separate audit from consulting services; introduce measures to substantially increase the accountability of those chairing audit committees in firms and impose a 'joint audit' regime giving firms outside the Big Four a role in auditing the UK's biggest companies.

Independent review of the FRC publishes report

The independent review of the FRC led by Sir John Kingman [published its report to the UK government on December 18](#). The review sets out 83 recommendations, including one that recommends the FRC be replaced with an independent statutory regulator, accountable to Parliament, with a new mandate, new clarity of mission, new leadership and new powers. The new regulator would be called the Audit, Reporting and Governance Authority.

Other Developments

AICPA votes to issue SAS on ERISA audits

On December 3, The AICPA's ASB voted to issue a new auditing standard, [Statement on Auditing Standards \(SAS\), Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA](#). The SAS addresses the auditor's responsibility to form an opinion and report on the audit of financial statements of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), and the form and content of the auditor's report issued as a result of an audit of ERISA plan financial statements.

The SAS includes new requirements for engagement acceptance, audit risk assessment and response, communications with those charged with governance, procedures for an ERISA section 103(a)(3)(C) audit, and considerations relating to the Form 5500. It also contains a new report

format for ERISA section 103(a)(3)(C) audits. For audits of ERISA plan financial statements only, this SAS would apply in place of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph .09 of AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*). The SAS also would amend various other AU-C sections in AICPA *Professional Standards*.

When issued, it is expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020.

The ASB also expects to consider whether conforming amendments to this SAS will be necessary once the [Proposed SAS, Auditor Reporting and Related Amendments](#) are voted to be issued, which is expected to occur in the first half of 2019.

NASBA appoints new chair for 2018-19

The National Association of State Boards of Accountancy (NASBA) [appointed Janice Gray](#), of Norman, Oklahoma, chair of its 2018-19 board of directors. Gray previously served as NASBA vice chair, secretary, director-at-large and Southwest regional director. A former chair of NASBA's Compliance Assurance and Ethics Committees, she served as a member of the Oklahoma Accountancy Board for 10 years, including two terms as chair.

Agencies allow three-year regulatory capital phase in for new current expected credit losses accounting standard

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) [approved a final rule](#) modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the update to the accounting standard known as the current expected credit losses (CECL) methodology. In addition, the final rule revises the agencies' regulatory capital rule, stress testing rules, and regulatory disclosure requirements to reflect CECL, and makes conforming amendments to other regulations that reference credit loss allowances.

The final rule will take effect April 1, 2019. Banking organizations that choose to early adopt CECL may elect to adopt the rule as of the first quarter 2019.

CAQ

CAQ provides lessons learned from dry runs on critical audit matters

Robust communication and planning will be required to effectively determine and communicate critical audit matters (CAMs) in the updated auditor's report, according to a new CAQ resource. The publication, *Critical Audit Matters: Lessons Learned, Questions to Consider, and an Illustrative Example*, was issued on December 10 and presents early lessons learned from “dry runs” that certain CAQ member firms have conducted on CAMs.

The resource examines key takeaways from the testing of CAMs to date, including the following:

- Determining which matters are CAMs involves applying a principles-based approach and significant auditor judgment;
- It is important for the auditor to communicate with management and the audit committee early and often in the process of identifying and drafting CAMs;
- Auditors, preparers, audit committees, and others should plan accordingly for the time it will take to determine and draft CAMs; and
- Drafting CAMs can be challenging.

The publication also contains an illustrative example of a CAM, along with a set of new questions to foster dialogue and understanding regarding the impact that CAMs may have throughout the audit.

CAQ tool helps audit committees address emerging technologies' impact on financial reporting

A new CAQ resource, *Emerging Technologies: An Oversight Tool for Audit Committees*, was issued on December 12 and provides a framework and questions audit committees may ask management and auditors to help inform their oversight of financial reporting as emerging technologies take hold.

Leveraging the work of the Committee of Sponsoring Organizations of the Treadway Commission, the tool has five key components:

- Understand the Company's Emerging Technology Strategy and Any Specific Technologies Contemplated;
- Understand Management's Risk Identification and Assessment Process;
- Understand the Control Activities in Place that Respond to the Identified Risks;
- Establish Information and Communication Protocols; and
- Monitor Emerging Technology Activities

Under each category the publication provides questions to spark dialogue among audit committees, auditors, management and others.



Additionally, the tool highlights how two technologies – artificial intelligence and robotic process automation – are gaining significant traction in the financial reporting environment. An appendix points to helpful resources on emerging technologies from public company auditing firms and governance organizations.

CAQ posts highlights of September 2018 SEC Regulations Committee meeting

The CAQ posted on its website [highlights](#) from the September 12, 2018 meeting of the CAQ's SEC Regulations Committee with SEC staff. The financial reporting matters discussed included the following:

- New revenue recognition disclosures under ASC 606, *Revenue Recognition*;
- Impact of retrospective application of new accounting standards on the fourth and fifth year of selected financial data table (e.g., new standard on long-duration insurance contracts);
- Emerging growth company transition issues;
- Financial statement requirements in an S-4 and/or merger proxy for an operating company merging with a special purpose acquisition company; and
- ASC 842 – Impact on Article 11 conclusions for Master Limited Partnership drop-down transactions previously accounted for as common control business combinations under ASC 805, *Business Combinations*, and now accounted for as failed sale-leaseback transactions under ASC 842.

IPTF issues discussion document on monitoring inflation in certain countries

On December 13, the CAQ International Practices Task Force (IPTF) issued a [Discussion Document: Monitoring Inflation in Certain Countries, November 2018](#). The Discussion Document provides inflation data to assist registrants in monitoring inflation statistics in connection with their determination of the inflationary status of countries in which they have operations. The information in the Discussion Document is intended to assist management in applying ASC 830, *Foreign Currency Matters* (ASC 830), in conjunction with its internal controls over financial reporting, to reach a conclusion on whether a country's economy should be considered highly-inflationary.

The IPTF compiled cumulative inflation data by country (for those countries for which the International Monetary Fund publishes data), and then categorized the countries based on their cumulative inflation rates and the implementation guidance in ASC 830. In addition, the IPTF identified countries where projected cumulative inflation rates would have been categorized into categories considering the guidance in ASC 830 and in circumstances where there was not consistent reliable data.

Upcoming Events

January 17-19

AAA Auditing Midyear Meeting, Nashville, TN ([Link](#))

January 22-23

IASB Board Meeting, London, UK ([Link](#))

January 25

PLI Webcast: SEC and Cybersecurity: Emerging Regulatory Expectations and What's Ahead in 2019 ([Link](#))

February 12-13

ICGN Amsterdam Event, Amsterdam, The Netherlands ([Link](#))

March 4-6

CII Spring Conference, Washington, DC ([Link](#))

March 4-8

RSA Conference, San Francisco, CA ([Link](#))

May 6-8

AICPA Employee Benefit Plans Conference, New Orleans, LA ([Link](#))

May 12-15

CFA Institute Annual Conference, London, UK ([Link](#))

June 9-13

AICPA Advanced Accounting and Auditing Conference, Las Vegas, NV ([Link](#))

July 16-18

ICGN Annual Conference, Tokyo, Japan ([Link](#))

August 10-14

AAA Annual Meeting, San Francisco, CA ([Link](#))

September 21-24

NACD Global Board Leaders' Summit, Washington, DC ([Link](#))

November 6-8

AICPA Women's Global Leadership Summit, San Diego, CA ([Link](#))

November 19-20

SIFMA Annual Meeting, Washington, DC ([Link](#))



CAQ

PUBLIC POLICY & TECHNICAL ALERT

The Center for Audit Quality is an autonomous, nonpartisan, nonprofit organization dedicated to enhancing investor confidence and public trust in the global capital markets by fostering high-quality public company audits; collaborating with other stakeholders to advance the discussion of critical issues; and advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of CPAs. For more information, visit www.thecaq.org.

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