



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets
Affiliated with the American Institute of CPAs

CAQ Public Policy Monitor

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As part of the Center for Audit Quality's ongoing effort to keep members informed on critical public policy matters with the potential to impact the public company audit profession, we are pleased to offer the Public Policy Monitor. Each month, the CAQ Public Policy Monitor highlights and examines the policies and broader political events shaping the public debate on public company auditing, as well as financial reporting and related regulatory and legislative issues.

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PCAOB

PCAOB report details inspection findings related to risk assessment standards

The Public Company Accounting Oversight Board (PCAOB or Board) on October 15 published a [report](#) detailing deficiencies in registered audit firms' implementation of and compliance with Auditing Standards (AS) Nos. 8-15 – the risk assessment standards – as observed during its 2012-2014 inspections. The risk assessment standards were adopted in 2010 and are designed to address the auditor's assessment of audit risk, responses to the risks of material misstatement, and evaluation of the results of procedures performed in an audit.

In 26 percent of the 632 engagements inspected in 2012 where the risk assessment standards were applicable, inspections staff found an audit deficiency related to one or more of those standards that significantly contributed to an insufficiently supported audit opinion (Part I finding). That rate increased

to 27 percent for the 848 engagements inspected in 2013. A preliminary analysis of 2014 inspection data indicates that a high rate of audit deficiencies related to the risk assessment standards continue to be identified in 2014 inspections, the report says.

Examples of common deficiencies under those auditing standards include:

- Firms did not perform substantive procedures, including tests of details that were specifically responsive to fraud risks and other significant risks that were identified. (AS 13)
- Firms did not perform sufficient testing of the design and operating effectiveness of controls to support their planned level of control reliance, including testing controls over the system-generated data and reports that were used to support important controls or substantive procedures performed in response to the assessed risks of material misstatement. (AS 13 and 15)
- Firms did not evaluate the accuracy and completeness of financial statement disclosures. (AS 15)
- Firms did not take into account relevant audit evidence that appeared to contradict certain assertions in the financial statements. (AS 14)

The report also includes suggested questions that audit committees might find helpful in preparing for discussions with their auditors about the application of the risk assessment standards.

PCAOB Staff Inspection Brief provides information on 2015 inspections

The PCAOB on October 1 published its [second Staff Inspection Brief, Information about 2015 Inspections](#), which highlights the objectives, focus, and scope of the PCAOB's ongoing inspections in 2015 of registered audit firms. The [first edition](#), published last month, detailed the objectives, focus, and scope of the PCAOB's ongoing inspections of auditors of brokers and dealers.

According to the brief, the inspections staff is looking closely at three general areas across firms:

- Internal control over financial reporting (ICFR), particularly related to the testing of the design and/or operating effectiveness of controls.
- Assessing and responding to risks of material misstatement. Some auditors did not always sufficiently identify the risks or respond effectively to existing risks that they have identified, such as performing tests that are not sufficiently responsive to the assessed risks.
- Accounting estimates and fair value measurements, particularly related to testing of key data and significant assumptions used by management to develop estimates.

These are among the most common areas where inspectors found significant deficiencies in the past several years.

In addition, inspectors consider the current economic environment and related developments in their reviews. For example, economic uncertainty stemming from the financial crisis and the sluggish global economy has in the past factored into the audits and the areas selected for inspection. Certain economic developments that factor into the 2015 selections include:

- The high pace of mergers and acquisitions activity;
- The search for higher-yielding investment returns in a low interest rate environment; and

- The recent fluctuation in oil prices and its varying effects on the financial reporting risks of different industries.

In the area of information technology, the brief notes that the inspections staff seeks to understand firms' development and use of software audit tools to analyze full populations of accounting and financial reporting transactions to select transactions for testing rather than selecting a random sample of transactions for testing. The inspections staff also is reviewing how engagement teams evaluate the risks of material misstatement associated with cybersecurity and the related controls in the integrated audit.

PCAOB posts updated standard-setting agenda

The PCAOB on September 30 posted to its website an updated [standard-setting agenda](#). The Board plans to take action on four projects during the period October 2015 through March 2016:

Project	Planned Action
1. Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits (Docket 029)	Adoption
2. Supervision of Other Auditors and Multi-location Audit Engagements	Proposal
3. Going Concern	Staff Consultation Paper
4. Auditor's Reporting Model (Docket 034)	Re-proposal

1. In June, the Board issued a supplemental request for comment on an alternative to disclosing in the auditor's report the name of the engagement partner and certain information about other participants in the audit, whereby the information would be disclosed on a new PCAOB form. The staff is drafting an adopting release for the Board's consideration in the fourth quarter of 2015, and anticipates recommending that the information be disclosed on a new form.
2. The staff is drafting proposed amendments to improve the auditing standards that govern the planning, supervision, and performance of audits involving other auditors and multi-location audit engagements. The staff anticipates recommending that the Board issue a proposal for public comment in the fourth quarter of 2015.
3. The staff is developing a consultation paper seeking public comment on potential approaches to improving the performance and reporting requirements in the existing going concern standard, and anticipates that the PCAOB will issue the staff consultation paper in the first quarter of 2016.
4. The staff anticipates recommending that the Board issue a re-proposal of the auditor's reporting standard for public comment in the first quarter of 2016. The staff is continuing to evaluate the proposed other information standard and anticipates making a recommendation for next steps to the Board at a later date.

PCAOB publishes SAG agenda

The PCAOB on October 29 published the [agenda](#) for the Standing Advisory Group (SAG) meeting to be held on November 12-13. The meeting will focus on audit quality indicators (AQIs) and emerging issues that could affect audits, auditors, or the PCAOB. SAG members also will receive an update on the project regarding the auditor's use of the work of specialists, recent PCAOB developments, and the Board's other current standard-setting activities.

On the 12th, the PCAOB Office of Research and Analysis will open a discussion on the [concept release on AQIs](#), which the PCAOB released in July. The PCAOB has reopened the comment period on the AQIs concept release until November 30 to provide the public with an opportunity to offer their views, including on any new information that becomes available as a result of the SAG meeting.

On the 13th, the Office of the Chief Auditor will discuss the project on the auditor's use of the work of specialists, including comments received on the [staff consultation paper](#) released in May.

Correction: SEC approves reorganization of PCAOB auditing standards

The September *Public Policy Monitor* reported that the Securities and Exchange Commission (SEC or Commission) had [approved](#) the PCAOB's proposed reorganization of its auditing standards into a topical, integrated numbering system that integrates the existing interim and PCAOB-issued auditing standards. The order published on September 17 mistakenly stated that the new PCAOB rules are effective as of December 15, 2016. The SEC subsequently corrected the order: the effective date is December 31, 2016.

SEC

SEC sets schedule for issuing final extractive industries disclosure rule

The SEC on October 2 [filed a schedule](#) with the U.S. District Court for the District of Massachusetts with details as to when the agency will seek to issue a final rule implementing Section 1504 of the Dodd-Frank Act. Section 1504 requires the SEC to issue rules requiring extractive sector companies (oil, gas, and mining companies) to disclose their payments to foreign governments as well as the U.S. government.

In the filing, the SEC proposed to hold a vote adopting a final rule by June 27, 2016. According to [a note by law firm Foley Hoag](#), "That deadline anticipates that the SEC will hold a vote on a proposed rule before the end of 2015, with a comment period of at least 45 days."

The SEC's original rule was vacated in July 2013. In September 2014, Oxfam America sued the SEC over continued delays in issuing a final rule. On September 2, 2015, the District Court in Boston ordered the SEC to file an expedited schedule for releasing a final rule within 30 days.

SEC approves new crowdfunding rules

The SEC on October 30 adopted new rules to allow certain companies to offer and sell securities to non-accredited investors through crowdfunding. Title III of the JOBS Act created an exemption under the federal securities laws for this type of funding.

Under [Regulation Crowdfunding](#), a company may raise up to \$1 million from non-accredited investors in any 12-month period. An investor with an annual income or net worth of \$100,000 or less may invest in any 12-month period up to \$2,000, or five percent of his or her net worth, whichever is greater. An investor with an annual income and net worth of \$100,000 or greater may invest up to ten percent of the lesser of his or her income or net worth. The investment limit for any investor is \$100,000 per 12-month period.

Ineligible companies include, among others, non-U.S. companies, Exchange Act reporting companies, certain investment companies, and companies that have no specific business plan or have indicated that their business plan is to engage in a merger or acquisition with an unidentified company or companies.

The new rules also impose disclosure requirements on issuers for certain information about their business and securities offerings, and create a regulatory framework for the broker-dealers and funding portals that facilitate the crowdfunding transactions.

The SEC also [proposed amendments](#) to Securities Act Rule 147 to modernize the rule for intrastate offerings, including through intrastate crowdfunding provisions. The proposal also would amend Securities Act Rule 504 to increase the aggregate amount of money that may be offered and sold pursuant to the rule from \$1 million to \$5 million and apply bad actor disqualifications to Rule 504 offerings to provide additional investor protections. The deadline for submitting comments is 60 days after publication in the *Federal Register*.

FASB/IASB

IASB publishes draft guidance on materiality

The International Accounting Standards Board (IASB) on October 29 issued draft guidance to assist management in applying the concept of materiality to general-purpose financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The proposed IFRS Practice Statement, [Application of Materiality to Financial Statements](#), provides guidance in the following three main areas:

- Characteristics of materiality;
- How to apply the concept of materiality when making decisions about presenting and disclosing information in the financial statements; and
- How to assess whether omissions and misstatements of information are material to the financial statements.

The proposed IFRS Practice Statement's aim is to illustrate the types of factors that management should think about when considering whether information is material. However, because materiality should be considered within the context of a specific entity, this guidance does not aim to provide a complete list of considerations for making judgments about materiality when preparing the financial statements.

The deadline for submitting comments is February 26, 2016.

CAQ Updates

CAQ alerts summarize potential risk areas for upcoming audit cycle

The Center for Audit Quality (CAQ) on October 12 published two member alerts to help public company auditing firms address potential risks during the 2015 audit cycle.

The first alert, [Select Auditing Considerations for the 2015 Audit Cycle](#), identifies and discusses some of the more judgmental or complex audit areas, many of which are also included in the [Staff Inspection Brief](#) the PCAOB published this month (see "PCAOB Staff Inspection Brief provides information on 2015 inspections" above). The CAQ alert covers the following topics:

- Professional Skepticism
- ICFR
- Risk Assessment and Audit Planning

- Supervision of Other Auditors and Multi-Location Audit Engagements
- Testing Issuer-Prepared Data and Reports
- Cybersecurity
- Revenue Recognition
- Auditing Accounting Estimates, Including Fair Value Measurements
- Related Parties and Significant Unusual Transactions

The second alert, [Select Considerations for the 2015 Audit Cycle for Brokers and Dealers](#), addresses the PCAOB [Staff Inspection Brief](#) published last month and provides links to select guidance on inspection deficiencies identified by the PCAOB.

CAQ releases new 'Profession in Focus' videos

The CAQ in October released two new episodes of its online video series, *Profession in Focus*:

- In [episode nine](#), Christopher P. Agoglia, Department Chair and Richard Simpson Endowed Professor of Accounting at the University of Massachusetts' Isenberg School of Management, and CAQ Executive Director Cindy Fornelli discuss the CAQ/American Accounting Association research program, [Access to Audit Personnel](#), and how to craft solid research proposals for it.
- In [episode 10](#), Joseph M. Adams, Managing Partner and CEO at McGladrey LLP, discusses how to attract and retain talent in the public company auditing profession, including drivers of change and key messages that younger people need to hear about the profession.

The video series is [archived](#) on the CAQ website.

Anti-Fraud Collaboration creates self-study program on ethics

The Anti-Fraud Collaboration on October 20 unveiled a set of [online self-study courses](#) for corporate ethics training. Housed on the American Institute of CPAs' learning platform, the courses can be taken free of charge and with the potential of earning up to two continuing professional education (CPE) credits per course. The program includes the following courses:

- Building a Fraud Resistant Organization
- Detering Financial Fraud: What Else Can Be Done?
- How Corporate Culture Can Breed Fraud If Left Unchecked
- How to Improve Your Whistleblower Program and Address Impediments to Reporting
- Your Role in Sustaining a Culture That Deters Fraud

For each course, a panel of experts examines the topic at hand from a variety of perspectives. Panelists include, among others, leading public company auditors, law partners, internal audit executives and chief ethics compliance officers, as well as representatives from the director and regulatory communities.

The Anti-Fraud Collaboration is a joint effort of the CAQ, Financial Executives International, The Institute of Internal Auditors, and the National Association of Corporate Directors.

CAQ releases 2015 Audit Committee Transparency Barometer

The CAQ and Audit Analytics on November 3 published the second edition of the [Audit Committee Transparency Barometer](#) (Barometer). The Barometer gauges how public company audit committees approach the public communication of their oversight activities, by measuring the robustness of proxy

disclosures among companies in the S&P Composite 1500. This index is comprised of the S&P 500 (large-cap companies), the S&P MidCap 400, and the S&P SmallCap 600.

The 2015 Barometer's findings include:

- One-quarter of S&P 500 companies show enhanced discussion of the audit committee's considerations in recommending the appointment of the audit firm, up from 13 percent in 2014.
- Sixteen percent of S&P 500 companies explicitly stated the role audit committees play in determining the audit firm's compensation, doubling from 8 percent in 2014.
- Disclosure of the criteria considered when evaluating the audit firm more than tripled among S&P MidCap 400 companies, rising from 7 percent to 25 percent. Disclosure of these criteria among S&P SmallCap 600 companies increased from 15 percent to 22 percent.

The findings suggest that audit committees are responding to an increasing interest by investors, regulators, and other stakeholders in the roles and responsibilities of audit committees by providing the marketplace with meaningful information about their role in external auditor oversight. The Barometer also offers some examples of leading disclosure practices that show audit committees are also tailoring these enhanced disclosures specifically to the company, and not using a one-size-fits-all approach.

Upcoming Events

November 5

ICI Cybersecurity Forum, Washington, DC ([Link](#))

November 5

FASB Small Business Advisory Committee Meeting, Norwalk, CT ([Link](#))

November 9

FASB/IASB Joint Transition Resource Group for Revenue Recognition Meeting, Norwalk, CT ([Link](#))

November 12

USC Marshall Corporate Directors Forum, Los Angeles, CA ([Link](#))

November 12-13

PCAOB Standing Advisory Group Meeting, Washington, DC ([Link](#))

November 16-17

FEI Current Financial Reporting Issues Conference, New York, NY ([Link](#))

November 16-17

PLI Annual SEC Reporting and FASB Forum, Dallas, TX ([Link](#))

November 16-20

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

December 1

PCAOB Forum for Auditors of Broker-Dealers, Las Vegas, NV ([Link](#))

December 2

PCAOB Forum on Auditing in the Small Business Environment, Las Vegas, NV ([Link](#))

December 3

Baruch College Annual Audit Conference, New York, NY ([Link](#))

December 3-4

PLI Annual SEC Reporting and FASB Forum, New York, NY ([Link](#))

December 7-8

AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update, Washington, DC ([Link](#))

December 7-11

IAASB Board Meeting, New York, NY ([Link](#))

December 9-11

AICPA Conference on Current SEC and PCAOB Developments, Washington, DC ([Link](#))

December 14-15

PLI Annual SEC Reporting and FASB Forum, San Francisco, CA ([Link](#))

December 14-18

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

2016**March 16**

Center for Capital Markets Competitiveness Annual Capital Markets Summit, Washington, DC ([Link](#))

March 21-23

CII 2016 Spring Conference, Washington, DC ([Link](#))

May 10-12

AICPA Employee Benefit Plans Conference, Las Vegas, NV ([Link](#))

June 27-29

ICGN Annual Conference, San Francisco, CA ([Link](#))

July 21-22

AICPA National Advanced Accounting and Auditing Technical Symposium, Salt Lake, UT ([Link](#))

September 28-29

CII 2016 Fall Conference, Chicago, IL ([Link](#))

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.

The CAQ Public Policy Monitor represents the observations of the CAQ, but not necessarily the views of particular member firms, Governing Board members or individuals associated with the CAQ. Questions and comments about the CAQ Public Policy Monitor can be addressed to: ppm@thecaq.org.