

October 2017

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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PCAOB

PCAOB issues staff audit practice alert on matters related to auditing revenue from contracts with customers

The Public Company Accounting Oversight Board (PCAOB) on October 5 published [Staff Audit Practice Alert No. 15, *Matters Related to Auditing Revenue from Contracts with Customers*](#), to discuss certain significant matters relating to the application of PCAOB standards relevant to auditing the implementation of the Financial Accounting Standards Board's (FASB) new revenue accounting standard. This practice alert is intended to facilitate auditors' consideration of these matters in interim reviews of issuers and year-end audits of issuers and broker dealers. It discusses:

- Auditing management's transition disclosures in the notes to the financial statements;
- Auditing transition adjustments;
- Considering internal control over financial reporting;
- Identifying and assessing fraud risks;
- Evaluating whether revenue is recognized in conformity with the applicable financial reporting framework; and,
- Evaluating whether the financial statements include the required disclosures regarding revenue.

PCAOB posts standard-setting agenda

The PCAOB's Office of the Chief Auditor on September 30 posted an [updated standard-setting agenda](#), which includes updates on the standard-setting agenda and on the research agenda. The standard-setting projects include:

- *Auditor's Reporting Model*. The standard, adopted on June 1, was approved by the Securities and Exchange Commission (SEC) on October 23.
- *Auditing Accounting Estimates, Including Fair Value Measurements*. On June 1, the PCAOB issued for public comment a proposed single auditing standard to replace the existing standards for auditing accounting estimates and fair value measurements and proposed other related amendments to PCAOB auditing standards to strengthen and enhance the requirements for auditing accounting estimates, including fair value measurements. The comment period ended on August 30. The staff is analyzing comments and determining next steps.
- *The Auditor's Use of the Work of Specialists*. On June 1, the PCAOB issued for public comment proposed amendments to auditing standards to strengthen the requirements for the auditor's use of the work of specialists. The comment period ended on August 30. The staff is analyzing comments and determining next steps.
- *Supervision of Audits Involving Other Auditors*. On April 12, 2016, the PCAOB issued for public comment amendments to improve the auditing standards that govern the

supervision of audits involving other auditors, and a new auditing standard for situations in which the auditor divides responsibility for the audit with another accounting firm. On September 26, 2017, the PCAOB issued a supplemental request for comment on revisions to the proposed amendments and proposed standard. The comment period on the supplemental request for comment ends on November 15.

- *Going Concern*. The staff plans to continue its research and outreach activities, including monitoring the effect on audits of the changes to the relevant accounting standards. In the meantime, Auditing Standard (AS) 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, and Staff Audit Practice Alert No. 13 continue to provide the applicable requirements and guidance, respectively, for audits under PCAOB standards.

The research projects include:

- Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities.
- Changes in the Use of Data and Technology in the Conduct of Audits.
- Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures.
- Auditor's Consideration of Noncompliance with Laws and Regulations.

SEC

SEC approves new PCAOB standard for expanded audit reports

The SEC on October 23 approved the PCAOB's new standard, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses and Unqualified Opinion*. The new standard replaces portions of AS 3101, *Reports on Audited Financial Statements*, and redesignates the remaining portions of AS 3101 as AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.

As summarized in [CAQ Alert 2017-07, The Auditor's Report - New Requirements for 2017](#), the new auditing standard requires significant changes to the auditor's report to be implemented in two phases:

- In the first phase, changes provide information about auditor tenure and clarify the auditor's responsibilities. The first phase of implementation affects audit reports issued on financial statements of public companies for fiscal years ending on or after December 15, 2017.
- In the second phase, the auditor is required to provide new information about the audit, including critical audit matters (CAMs). The second phase is effective for fiscal years ending on or after June 30, 2019 for large-accelerated filers, and for fiscal years ending on or after December 15, 2020 for audits of all other companies to which the requirements apply.

The auditor's report will continue to be a pass/fail model under the new standard.

SEC proposes rules to implement FAST Act mandate to modernize and simplify disclosure

The SEC on October 11 proposed [amendments](#) to modernize and simplify disclosure requirements for public companies, investment advisers, and investment companies and to implement a mandate under the Fixing America's Surface Transportation (FAST) Act. The proposed amendments to Regulation S-K and related rules and forms would make adjustments to update, streamline or otherwise improve the SEC's disclosure framework. The proposal reflects changes based on recommendations in the SEC staff's [FAST Act Report](#) and amendments developed as part of a broader review of the SEC's disclosure system. Among other things, the proposed amendments would:

- Revise rules or forms to update, streamline or otherwise improve the SEC's disclosure framework by eliminating the risk factor examples listed in the disclosure requirement and revising the description of property requirement to emphasize the materiality threshold;
- Update rules to account for developments since their adoption or last amendment by eliminating certain requirements for undertakings in registration statements;
- Simplify disclosure or the disclosure process, including proposed changes to exhibit filing requirements and the related process for confidential treatment requests and changes to Management's Discussion and Analysis that would allow for flexibility in discussing historical periods; and,
- Incorporate technology to improve access to information by requiring data tagging for items on the cover page of certain filings and the use of hyperlinks for information that is incorporated by reference and available on EDGAR.

The proposal also includes parallel amendments to several rules and forms applicable to investment companies and investment advisers, including proposed amendments that would require certain investment company filings to include a hyperlink to each exhibit listed in the exhibit index of the filings and be submitted in HyperText Markup Language (HTML) format.

Once published in the *Federal Register*, the public will have 60 days to comment on the proposed amendments. More information can be found at the SEC's [Press Release and Fact Sheet](#).

SEC Division of Corporation Finance updates C&DIs

The SEC's Division of Corporation Finance updated the following Compliance and Disclosure Interpretations (C&DIs) in October:

- **Non-GAAP Financial Measures**
 - Section 101. Business Combination Transactions
 - [New Questions 101.01 and 101.02](#) (Updated 10/17/17))

FASB

FASB issues proposed ASU – Codification improvements

In October, the FASB issued a proposed Accounting Standards Update (ASU):

- [Proposed ASU, Codification Improvements](#)

Issued on October 3, the proposed amendments represent changes to clarify, correct errors in, or make minor improvements to the Codification. The proposed amendments would make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications.

In the Exposure Draft, the FASB highlights proposed amendments to the following Codification Topics that may have been incorrectly or inconsistently applied by certain entities:

- Amendments to Subtopic 220-10, *Comprehensive Income – Overall*
- Amendments to Subtopic 470-50, *Debt – Modifications and Extinguishments*
- Amendments to Subtopic 480-10, *Distinguishing Liabilities from Equity – Overall*
- Amendments to Subtopic 718-740, *Compensation – Stock Compensation – Income Taxes*
- Amendments to Subtopic 805-740, *Business Combinations – Income Taxes*
- Amendments to Subtopic 815-10, *Derivatives and Hedging – Overall*
- Amendments to Subtopic 820-10, *Fair Value Measurement – Overall*
- Amendments to Subtopic 940-405, *Financial Services – Brokers and Dealers – Liabilities*
- Amendments to Subtopic 962-325, *Plan Accounting – Defined Contribution Pension Plans – Investments – Other*

The Proposed ASU states that Codification users should review the entire document to assess any effects that the proposed amendments may have on entities that are within the proposed ASU's scope. A complete list of all the Codification Topics that are affected by the proposed amendments can be found in the summary table on pages 9–11 of the Proposed ASU.

The deadline for submitting comments is December 4, 2017.

International

IASB issues narrow-scope amendments to IFRS 9 and IAS 28

The International Accounting Standards Board (IASB) on October 12 issued [amendments](#) to two International Financial Reporting Standards (IFRS): IFRS 9, *Financial Instruments*, and

International Accounting Standard (IAS) 28, *Investments in Associates and Joint Ventures*, to aid implementation.

The amendments to IFRS 9 allow companies to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. The amendments to IAS 28 clarify that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9.

The amendments are effective January 1, 2019 with early application permitted.

CAQ

CAQ alerts summarize potential risk areas for 2017 audit cycle

The CAQ on October 11 published two new member alerts to help public company auditing firms address potential risks during the upcoming 2017 audit cycle.

The first alert, [Select Auditing Considerations for the 2017 Audit Cycle](#), identifies and discusses some of the more judgmental or complex audit areas for the upcoming audit cycle, including some of those identified by the PCAOB through its inspection process and published in the recent PCAOB [Staff Inspection Brief](#). The alert focuses on many important topics, including the following:

- Auditor Independence
- Multinational Audits
- Transitioning to New Accounting Standards
- Audit Areas Potentially Affected by Economic Factors
- Recurring Audit Deficiencies
- Financial Reporting Areas
- Increasing Transparency through Disclosure of Engagement Partner and Certain Other Participants in Audits: PCAOB Rules 3210 and 3211

A companion alert, [Select Auditing Considerations for the 2017 Audit Cycle for Brokers and Dealers](#), provides auditing considerations that may be relevant for audit and attestation engagements for brokers and dealers registered with the SEC. This alert focuses on the following topics:

- Auditor Independence
- Risk of Material Misstatement Due to Fraud
- Revenue Recognition
- Financial Statement Presentation and Disclosure
- Related Party Transactions
- Auditing Information Produced by a Service Organization

- Supplemental Information
- Examination Engagements
- Review Engagements
- Engagement Quality Reviews
- The Securities Investor Protection Corporation (SIPC) Rule 600

CAQ releases 2017 Main Street Investor Survey

The CAQ on October 25 released its [11th Annual Main Street Investor Survey](#) (Survey) The Survey measures retail investor confidence in U.S. capital markets, global capital markets, public companies, and audited financial information.

This year's findings include:

- 85 percent of investors express confidence in U.S. capital markets, an all-time high in the survey;
- 83 percent of investors have confidence in investing in U.S. publicly traded companies, also a record high;
- 78 percent of investors say they are confident in audited financial information released by publicly held companies; and,
- Investors register exceptional degrees of confidence in the ability of external auditors, audit committees, and stock exchanges to fulfill their investor protection roles.

In addition to its core confidence measures, the Survey also sheds light on investor views regarding factors that might affect their investment outlook. This year's Survey confirms that retail investors are watching Washington closely. In fact, political actions taken by the White House or Congress are the top two factors that are most likely to affect their investment decisions in the next year, followed closely by a high-profile political issue: changes to U.S. tax policy.

Investors also continue to express particular concerns regarding risks to the U.S. economy posed by the growing national debt, cyber-attacks on personal financial information or capital markets, and global political unrest.

Anti-Fraud Collaboration releases fourth case study

The Anti-Fraud Collaboration on October 10 released the [LDC Cloud Systems Case Study](#), another installment in the Anti-Fraud Collaboration's [series of case studies](#) highlighting ways to deter financial fraud.

The new case study features fictional company LDC Cloud Systems, a rapidly growing global technology company whose board is dealing with bribery allegations and accounting abnormalities. The hypothetical scenario shows how fraud situations can develop and be addressed, such as through strong board oversight. The case study explores actions of

management and the board in-depth, providing a timeline of management and board decisions after potential problems are uncovered. It also demonstrates how complex accounting practices typical in today's fast-changing business environment can make a company prone to fraud.

For classroom use, the Anti-Fraud Collaboration has also created a set of [video vignettes](#) that bring scenes from the case study to life.

The Anti-Fraud Collaboration represents the collaborative efforts of the CAQ, Financial Executives International, the National Association of Corporate Directors, and The Institute of Internal Auditors, organizations that actively engage in efforts to mitigate the risks of financial reporting fraud. The Anti-Fraud Collaboration's goal is to promote the deterrence and detection of financial reporting fraud through the development of thought leadership, awareness programs, educational opportunities, and other related resources specifically targeted to the roles and responsibilities of participants across the financial reporting supply chain.

CAQ issues new 'Profession in Focus' video

In October, the CAQ issued one new episode of its online series, *Profession in Focus*:

- [Episode 52](#) features Chris Smith, BDO's Global Head of Audit and Accounting. With over 30 years of auditing experience, Smith reflects on the evolution of public company auditing, the impact of the Sarbanes-Oxley Act of 2002, and the challenges and opportunities of connectivity in a global economy.

Upcoming Events

November 5-8

SIFMA Internal Auditors Society Annual Conference, Fort Lauderdale, FL ([Link](#))

November 6-8

AICPA Oil & Gas Conference, Denver, CO ([Link](#))

November 8-10

PLI 49th Annual Institute on Securities Regulation, New York, NY ([Link](#))

November 13-14

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

November 13-14

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

November 13-15

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

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November 29-30

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

December 4-5

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

December 4-6

AICPA Conference on Current SEC and PCAOB Developments, New York, NY ([Link](#))

December 7

PCAOB Forum for Auditors of Broker-Dealers, Jersey City, NJ ([Link](#))

December 7-8

AICPA Construction & Real Estate Conference, Las Vegas, NV ([Link](#))

December 11-12

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

December 11-15

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

December 11-15

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

December 13

Anti-Fraud Collaboration Webcast ([Link](#))

December 18-19

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

December 18-19

Webcast: PLI Annual SEC Reporting & FASB Forum ([Link](#))

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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 and Technical Alert (PPTA) 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 PPTA can be addressed to: aschumacher@thecaq.org.

