



CENTER FOR AUDIT QUALITY

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

CAQ Public Policy and Technical Alert

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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 updates standard-setting and research agendas

The Public Company Accounting Oversight Board (PCAOB or Board) posted on its website a [standard-setting update](#) which included an update on the standard-setting agenda and an update on the research agenda.

The standard-setting projects include:

- *Auditor's Reporting Model*. The Board plans to adopt a final standard on the Auditor's Reporting Model in the second quarter. The PCAOB had previously planned to adopt the standard in the first quarter.
- *Auditing Accounting Estimates, Including Fair Value Measurements*. The PCAOB staff is drafting a proposal for Board consideration in the second quarter of 2017.
- *The Auditor's Use of the Work of Specialists*. The PCAOB staff is drafting a proposal for Board consideration in the second quarter of 2017.
- *Supervision of Audits Involving Other Auditors*. The PCAOB staff has analyzed comments on the proposal and is considering the discussion at the May and November 2016 Standing Advisory Group (SAG) meetings. The PCAOB staff is preparing a recommendation for the next Board action.
- *Going Concern*. The PCAOB staff plans to continue its outreach, monitoring and research activities.

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
- The Auditor's Role Regarding Other Information and Company Performance Measures, Including Non-GAAP Measures
- Auditor's Consideration of Noncompliance with Laws and Regulations

SEC

Federal court enters final judgment in conflict minerals case

On April 3, the United States District Court for the District of Columbia (Court) issued a final judgment in the litigation regarding the Securities and Exchange Commission's (SEC) [Conflict Minerals rule](#). The Court found that the rule violates the First Amendment by requiring regulated entities to report to the SEC and to state on their websites whether any of their products contain minerals that originated in the Democratic Republic of Congo (DRC) or an adjoining country.

In response to the ruling, the SEC's Division of Corporation Finance (Corp Fin) on April 7 released a [statement](#) observing that the Court left open the question of whether the description "DRC conflict free" is required by the Dodd-Frank Act or is a product of the SEC's rulemaking. Due to the uncertainty regarding how the SEC will resolve the issues raised by the Court, Corp Fin "has determined that it will not recommend enforcement action to the Commission if companies, including those that are subject to paragraph (c) of Item 1.01 of Form SD, only file disclosure under the provisions of paragraphs (a) and (b) of Item 1.01 of Form SD."

SEC adopts inflation adjustments and other technical changes under the JOBS Act

The SEC on March 31 adopted [new rules](#) that include an inflation-adjusted threshold in the definition of "emerging growth company" (EGC) as well as amendments to adjust the dollar amounts in Regulation Crowdfunding, as required under Title I and Title III of the Jumpstart Our Business Startups (JOBS) Act. The SEC also adopted technical amendments to conform several rules and forms to amendments made to the securities laws by Title I of the JOBS Act.

The new rules became effective on April 12.

SEC updates C&DIs

Corp Fin updated the following Compliance and Disclosure Interpretations (C&DIs):

- **Regulation Crowdfunding**
 - Rule 201: Disclosure Requirements (Updated 4/05/17)
 - [New C&DI 201.02](#)
 - Rule 202: Ongoing Reporting Requirements (Updated 4/05/17)
 - [New C&DI 202.01](#)
- **Securities Act Rules – Questions and Answers of General Applicability**
 - Section 182. Rules 251-263 (Updated 3/31/17)
 - [New C&DI 182.15](#)
 - [New C&DI 182.16](#)
 - [New C&DI 182.17](#)
 - [New C&DI 182.18](#)
 - [New C&DI 182.19](#)
 - [New C&DI 182.20](#)
 - Section 141. Rule 147: Intrastate offers and sales (Updated 4/19/17)
 - [New C&DI 141.06](#)
- **Securities Act Forms**
 - Section 128. Form 1-A (Updated 3/31/17)
 - Withdrawn – [Questions 128.05, 128.06, 128.07](#)

International

IFIAR publishes paper on Audit Committees and Audit Quality

The International Forum of Independent Audit Regulators (IFIAR) published a paper, [Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration](#). The “paper provides information with the aim of developing a better understanding of how audit committees function under existing requirements. It also raises questions and identifies areas for further consideration that might provoke discussion among interested parties, such as investors, audit committee members, audit regulators, and policymakers.”

The paper also raises questions and identifies areas for further consideration that could enhance the role of audit committees in improving audit quality, including some of the following:

- The desirability of criteria that define and determine the independence, special skills and expertise of audit committees;
- The utility of having a set of Audit Quality Indicators (AQIs) which audit committees could use to engage auditors in audit quality matters;
- Engaging shareholders in auditor selection; and
- Involving investors with audit committees as a way to incentivize audit firms to sharpen their focus on audit quality.

IASB proposes minor amendments to IFRS 9

The International Accounting Standards Board (IASB) on April 21 [proposed minor amendments](#) to IFRS 9, *Financial Instruments*, to enable companies to measure at amortized cost certain pre-payable financial assets with so-called negative compensation. The amendments are intended to improve the usefulness of information about these financial assets that the standard requires.

The Exposure Draft, [Prepayment Features with Negative Compensation](#) (*Proposed amendments to IFRS 9*) has a comment deadline of May 24, 2017.

IAASB proposes revisions to ISA 540

The International Auditing and Assurance Standards Board (IAASB) on April 20 [proposed revisions](#) to International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates and Related Disclosures*. The proposed standard:

- enhances requirements for risk assessment procedures to include specific factors related to accounting estimates, namely complexity, judgment, and estimation uncertainty;
- sets a more detailed expectation for the auditor's response to identified risks related to accounting estimates, including augmenting the auditor's application of professional skepticism; and
- is intended to be scalable regardless of the size or sector of the business or audit firm.

The deadline for submitting comments is August 1, 2017.

U.S. Congress

Hensarling releases revised Financial CHOICE Act

House Financial Services Committee Chair Jeb Hensarling (R-Texas) on April 19 released a [revised version of his Financial CHOICE Act](#). The bill would revise or repeal much of the Dodd-Frank Act.

Sections of the bill that are of particular relevance for the public company audit profession include:

- Sec. 411 which would exempt emerging growth companies (EGCs) from having to use XBRL for financial statements and other periodic reporting required to be filed with the SEC under the securities laws. Issuers with total annual gross revenues of less than \$250 million would be temporarily exempt.
- Sec. 441 which would amend Section 404 of the Sarbanes-Oxley Act to temporarily exempt EGCs and low-revenue issuers under certain conditions.
- Sec. 482 which would require proxy advisory firms to register with the SEC and to file, at intervals determined by the SEC, such financial statements, certified (if required by the SEC) by an independent public auditor, as the SEC may prescribe as necessary or appropriate in the public interest or for the protection of investors.
- Sec. 832 which would require the PCAOB to make available any information requested by the House Financial Services Committee or Senate Banking Committee. Confidential or privileged information would remain confidential and privileged.

- Sec. 833 which would abolish the PCAOB’s Investor Advisory Group.
- Sec. 847 which would amend Section 404(c) of the Sarbanes-Oxley Act to exempt issuers with a market capitalization of less than \$500 million, and issuers that are depository institutions with assets of less than \$1 billion, from an internal control evaluation as prescribed by Section 404(b).

Other Developments

AICPA releases cybersecurity risk management reporting framework

On April 26, the American Institute of CPAs (AICPA) released a market-driven, flexible and voluntary [cybersecurity risk management reporting framework](#). The framework will enable all organizations – in industries worldwide – to take a proactive and agile approach to cybersecurity risk management and to communicate on those activities with stakeholders. The release included two resources that support reporting under the framework:

- Description criteria – For use by management in explaining its cybersecurity risk management program in a consistent manner and for use by CPAs to report on management’s description.
- Control criteria – Used by CPAs providing advisory or attestation services to evaluate and report on the effectiveness of the controls within a client’s program.

A third resource for CPAs will be available in May:

- Attest guide – This guidance, *Reporting on an Entity’s Cybersecurity Risk Management Program and Controls*, will assist CPAs engaged to examine and report on an entity’s cybersecurity risk management program.

CAQ Updates

CAQ updates external auditor assessment tool

The CAQ, in partnership with the Audit Committee Collaboration, on April 18 released an updated version of its [External Auditor Assessment Tool](#). The publication is designed to assist audit committees in carrying out their responsibilities of appointing, overseeing, and determining compensation for the external auditor. The tool contains sample questions to help audit committees in three specific areas:

- Quality of services and sufficiency of resources provided by the auditor;
- Quality of communication and interaction with the auditor; and
- Auditor’s independence, objectivity, and professional skepticism.

As a companion to the tool, the CAQ has produced a [new video](#) that brings this resource to life through interviews with leading audit committee chairs discussing the importance of the assessment process, as well as how they put the tool to work.

CAQ issues new video vignette for classroom use

The CAQ posted on its website a [new video vignette](#) for classroom use that provides insights into the types of conversations that occur between audit team members, auditors, and preparers.

In Video Vignette 3, “Auditing Is a People Business,” the audit team has identified a potential error – the marketing expenses are below what the team would have expected. The company’s earnings call is only a few days away, and the senior manager wants to get the issue resolved quickly. The video illustrates two different approaches that the audit team could employ to uncover the source of the discrepancy, each ending in very different ways.

CAQ issues new ‘Profession in Focus’ video

The CAQ issued one new episode of its online video series, *Profession in Focus*:

- [Episode 44](#) features Peter Gleason, President and CEO of the National Association of Corporate Directors (NACD). Gleason discusses the top issues facing corporate boards, including implications of global economic uncertainty, the ever-present threat of industry disruption, and the evolving challenge of cybersecurity. He also offers insights on the phenomenon of “short-termism” and how directors can work to align short-term and long-term objectives.

Upcoming Events

May 8-10

AICPA Employee Benefit Plans Conference, Nashville, TN ([Link](#))

May 10

SEC-NYU Dialogue on Securities Market Regulation, New York, NY ([Link](#))

May 15-19

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

May 19

PCAOB Forum on Auditing in the Small Business Environment, Los Angeles, CA ([Link](#))

May 21-24

CFA Institute Annual Conference, Philadelphia, PA ([Link](#))

May 24-25

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

June 6-8

National Association of State Boards of Accountancy Western Regional Meeting, Coeur d’Alene, ID ([Link](#))

June 12-14

AICPA National Advanced Accounting and Auditing Technical Symposium, Las Vegas, NV ([Link](#))

June 18-23

ACFE Global Fraud Conference, Nashville, TN ([Link](#))

June 19-23

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

June 19-23

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

June 27-28

FEI 2017 Accounting Change for Financial Leaders Conference, Philadelphia, PA ([Link](#))

June 27-29

National Association of State Boards of Accountancy Eastern Regional Meeting, Newport, RI ([Link](#))

June 28-July 1

Society for Corporate Governance Professionals National Conference, San Francisco, CA ([Link](#))

July 11-13

International Corporate Governance Network Annual Conference, Kuala Lumpur, Malaysia ([Link](#))

July 20

PCAOB Forum on Auditing in the Small Business Environment, New York, NY ([Link](#))

August 5-9

American Accounting Association Annual Meeting, San Diego, CA ([Link](#))

September 18-22

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

September 24-27

Investment Company Institute Tax and Accounting Conference, San Antonio, TX ([Link](#))

October 29-November 1

National Association of State Boards of Accountancy Annual Meeting, New York, NY ([Link](#))

November 6-8

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

November 13-14

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

November 29-30

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

December 4-6

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

December 11-15

IAASB Meeting, New York, NY ([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 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.