

November 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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Upcoming Events

PCAOB

PCAOB publishes staff inspection brief previewing 2016 inspection findings

The Public Company Accounting Oversight Board (PCAOB) on November 10 published a [staff inspection brief](#) that previews the results of the 2016 inspections of auditors of public companies and other issuers, including three recurring areas where audit deficiencies were most frequently identified:

- Assessing and responding to risks of material misstatement

In 2016, PCAOB inspectors continued to identify audit deficiencies in auditors' assessment of, and response to, risks of material misstatement. Audit deficiencies were identified, for example, where the auditor did not perform tests of details specifically related to fraud risks assessed by the auditor.

- Auditing internal control over financial reporting

Deficiencies in audits of internal control over financial reporting (ICFR) continued to be the most frequent deficiencies identified by PCAOB inspectors in 2016, consistent with prior years' results. The most frequent ICFR deficiencies identified related to insufficient testing of the design and operating effectiveness of selected controls, particularly those controls that included a review element.

- Auditing accounting estimates, including fair value measurements

PCAOB inspectors also continued to identify instances in which auditors did not fully understand how a company's accounting estimates were developed or did not sufficiently evaluate the assumptions used by management. Audit deficiencies in this area commonly related to evaluating impairment analyses for goodwill and the valuations of assets and liabilities acquired in business combinations.

More information on the staff inspection brief can be found in the PCAOB's [news release](#).

PCAOB approves 2018 budget and 2017-2021 strategic plan

The PCAOB on November 16 approved its [2018 fiscal-year budget](#) of approximately \$259.9 million and its [2017-2021 strategic plan](#), which serves as the foundation for the budget and guides the PCAOB's programs and operations.

The 2018 budget is \$8.6 million, or 3.2 percent less than the 2017 budget of \$268.5 million. The total accounting support fee for 2018 is \$235.3 million, which is \$32.6 million less than the support fee in 2017. Approximately \$205.4 million of the 2018 accounting support fee is allocated to public companies and \$29.9 million is allocated to brokers and dealers.

The budget is subject to Securities and Exchange Commission (SEC) approval.

More information on the PCAOB's 2018 budget and 2017-2021 strategic plan can be found in the PCAOB's [news release](#).

Botic to replace Wilson as Director of International Affairs

The PCAOB on November 2 announced that [S. Bruce Wilson](#), Director of International Affairs, plans to retire. Wilson will be succeeded by [George Botic](#), who joined the PCAOB in 2003 as an inspector in the Division of Registration and Inspections. Botic will lead the PCAOB's efforts to negotiate and implement cooperative arrangements with non-U.S. auditor oversight bodies and represent the PCAOB in bilateral and multilateral meetings with non-U.S. governments and regulators.

SEC

Division of Corporation Finance Chief Accountant Mark Kronforst to leave SEC

The SEC on November 30 announced that [Mark Kronforst](#), Chief Accountant of the Division of Corporation Finance (the Division), plans to leave the SEC in early January after 13 years of public service with the investor protection agency. Kronforst has served as Chief Accountant since October 2013.

Prior to his role as Chief Accountant, Kronforst served in other capacities within the Division, including Associate Director in Disclosure Operations and Deputy Chief Accountant.

Upon Kronforst's departure, Kyle Moffatt, Associate Director in Disclosure Operations, will become the Division's acting Chief Accountant. Prior to his role as Associate Director, Moffatt served in several other Division positions, including Associate Director of the Disclosure Standards Office and as Associate Chief Accountant in the Division's Office of Chief Accountant. He joined the Division in 2000 as a Professional Accounting Fellow. Before joining the Division, he was an audit manager with Ernst & Young LLP.

SEC Enforcement Division issues report on priorities and FY 2017 results

The SEC's Enforcement Division on November 15 issued a [report](#) highlighting its priorities for the coming year as well as a review of enforcement actions that took place during fiscal year (FY) 2017.

In the report, Co-Directors Stephanie Avakian and Steven Peikin stated their overall enforcement approach: "Vigorous enforcement of the federal securities laws is critical to combat wrongdoing,

compensate harmed investors, and maintain confidence in the integrity and fairness of our markets.”

They also stated five core principles that will guide their enforcement decision-making: focus on the Main Street investor; focus on individual accountability; keep pace with technological change; impose sanctions that most effectively further enforcement goals; and constantly assess the allocation of resources.

According to the report, FY 2017 was a successful and impactful year for the Enforcement Division. The SEC brought a diverse mix of 754 enforcement actions, including 446 standalone actions and returned a record \$1.07 billion to harmed investors. A significant number of the SEC’s 446 standalone cases concerned investment advisory issues, securities offerings, and issuer reporting/accounting and auditing, each comprising approximately 20 percent of the overall number of standalone actions. The SEC also continued to bring actions relating to market manipulation, insider trading, and broker-dealers, with each comprising approximately 10 percent of the overall number of standalone actions, as well as other areas.

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 November:

- **Securities Act Rules**
 - Section 271. Rule 701 – Exemption for Offers and Sales of Securities Pursuant to Certain Compensatory Benefit Plans and Contracts Relating to Compensation
 - [New Question 271.25](#) (Updated 11/6/17)

FASB

FASB makes decisions on leasing standard simplification

Financial Accounting Standards Board (FASB) on November 29 made [decisions](#) to reduce costs and ease the implementation burden of the [Accounting Standards Update \(ASU\) 2016-02, Leases \(Topic 842\)](#) for preparers. The decisions include:

- **Land easements:** The FASB decided to proceed with the issuance of a final ASU that:
 - Provides an optional transition practical expedient that, if elected, would not require an organization to reconsider their accounting for existing land easements that are not currently accounted for under [ASU 2017-13, Leases \(Topic 840\)](#); and,
 - Clarifies that new or modified land easements should be evaluated under Topic 842 (the leases standard), once effective.

- **Transition approach, and separation of nonlease components from lease components for lessors only:** The FASB directed the staff to draft a proposed ASU, with a comment period of 30 days, that would:
 - Add an option for transition to Topic 842 that would enable an organization to not provide comparative period financial statements. Instead, an organization would apply the transition provisions of the leases standard at its effective date.
 - Add a practical expedient that would permit lessors not to separate non-lease components from the related lease components if certain conditions are met. This practical expedient could be elected by class of underlying assets, and if elected, certain disclosures would be required.

Kroeker reappointed FASB vice chairman

The Board of Trustees of the Financial Accounting Foundation on November 14 announced the [reappointment of James Kroeker](#) as vice chairman of the FASB. Kroeker's second and final term, which begins on July 1, 2018, extends through June 30, 2024. He began his first term as vice chairman of the FASB on September 1, 2013.

The Trustees also announced the appointment of Gary Buesser to the FASB. His term begins on July 1, 2018 and concludes on June 30, 2023, when he will be eligible for appointment to a second five-year term.

Buesser has been a portfolio manager/research analyst for the past 30 years, including at Lazard Asset Management from 2000 to the present. A director/research analyst at the firm since 2009, he has worked as an accounting analyst to improve the firm's global investment professionals' understanding of accounting standards to enable them to make better-informed investment decisions.

He succeeds Marc Siegel, who joined the FASB in July 2008 and whose second and final term concludes on June 30, 2018.

International

Monitoring Group seeks comments on reforms to the global audit standard-setting process

The [Monitoring Group](#) (MG) – a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard-setting and audit quality – on November 9 issued a consultation paper, [Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest](#). The consultation paper sets out various options to enhance the governance, accountability and

oversight of the international audit standard-setting process. Current standard-setting is done by three separate boards: International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), and International Accounting Education Standards Board (IAESB).

The MG is responsible for the overall governance of the international audit-related standard-setting process and the review of its effectiveness. The consultation is part of its ongoing global effort to promote high-quality international auditing and ethical standards. In developing options to reform the standard-setting process, the MG has reflected on some key overarching principles that standard-setting should observe: public interest, independence, credibility, cost effectiveness, relevance, transparency, and accountability.

The deadline for submitting comments is February 9, 2018. More information on the consultation paper can be found in the [MG's news release](#).

CAQ

CAQ, Audit Analytics issue 2017 Audit Committee Transparency Barometer

The Center for Audit Quality (CAQ) and Audit Analytics on November 1 released the [Audit Committee Transparency Barometer](#). The report shows that audit committees have continued to enhance transparency around their oversight of the external auditor by voluntarily and broadly increasing disclosure. Each year since 2014, the Barometer has measured the robustness of proxy disclosures among companies in the S&P Composite 1500. This index is comprised of the S&P 500, the S&P MidCap 400 (mid-cap companies), and the S&P SmallCap 600 (small cap companies).

The fourth edition of the Barometer provides year-over-year comparisons of key audit committee disclosure areas. Notable findings include:

- Thirty-seven percent of S&P 500 companies' proxy statements present enhanced discussion of the audit committee's considerations in recommending the appointment of the audit firm, up from 13 percent in 2014;
- Twenty-four percent of mid-cap companies show enhanced discussion of the audit committee's considerations in recommending the appointment of the audit firm (up from 10 percent in 2014) compared to 17 percent of small-cap companies (up from 8 percent in 2014);
- Thirty-eight percent of S&P 500 companies disclose criteria considered when evaluating the audit firm, a jump from 8 percent in 2014; and,
- Twenty-eight percent of mid-cap companies disclose criteria considered when evaluating the audit firm (up from 7 percent in 2014) compared to 27 percent of small-cap companies (up from 15 percent in 2014).

The 2017 Barometer highlights an opportunity for audit committees to enhance transparency regarding the disclosure of whether the evaluation of the external auditor is at least an annual event.

CAQ submits letter on PCAOB's supplemental request for comment on the supervision of audits involving other auditors

The CAQ on November 15 submitted a [comment letter](#) on the PCAOB's *Supplemental Request for Comment: Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm*.

In the letter, the CAQ expresses support for the PCAOB's consideration of revisions to auditing standards guiding the supervision of other auditors as public companies and their auditors become increasingly global. The CAQ provides a range of specific recommendations, drawing on its [2016 comment letter](#) focused on areas where the CAQ believes additional clarity, revisions, and alternative approaches could be provided to achieve the PCAOB's goals.

CAQ offers 2018 grants to fund auditing-related academic research

The CAQ on November 7 issued its 10th annual [request for proposals](#) to fund independent academic research on projects of interest to the auditing profession. To date, the CAQ has funded 35 academic research projects through this program.

The CAQ program focuses on [critical policy issues](#), including audits of internal control over financial reporting, audit risk assessment, auditing of accounting estimates and fair value, audit committee effectiveness, cybersecurity, data analytics, professional skepticism, multinational group audits, materiality, non-GAAP measures, fraudulent financial reporting, and the value of the audit.

To be considered, proposals must be submitted by March 15, 2018 through the CAQ's online [submission form](#). Proposals will be reviewed by the CAQ's Research Advisory Board, which is comprised of representatives from academia and the profession. Grants will be announced in June 2018.

CAQ posts highlights of July 2017 SEC Regulations Committee meeting

The CAQ posted [highlights](#) from the July 11, 2017 meeting of the SEC Regulations Committee with SEC staff. The financial reporting matters discussed included the following:

- Waivers via Rule 3-13 of Regulation S-X;
- Process for requesting omission of selected financial data;
- ASC 606, *Revenue from Contracts with Customers*;

- Non-GAAP financial measures;
- Regulation A submissions;
- Evaluating significance of a business disposal in connection with a proxy statement soliciting authorization for the disposal; and,
- Pro-Forma financial information presented in a Form 8-K for a significant acquisition made after a previously reported significant acquisition.

Anti-Fraud Collaboration releases report on misconduct

Organizations can take substantive actions to address the reporting of suspected financial fraud, according to a new report released by the Anti-Fraud Collaboration (the Collaboration). [Encouraging the Reporting of Misconduct](#) presents recommendations from key players in the financial reporting supply chain – including corporate directors, financial executives, and internal and external auditors.

The Collaboration compiled best practices from roundtable discussions focused on suspected financial reporting fraud and the negative impact that fear of retaliation has on the timely detection of such fraud. By understanding the factors that discourage reporting, the Collaboration offers ways to counter such obstacles and makes recommendations for creating and maintaining a retaliation-free environment.

The Collaboration represents the collaborative efforts of the CAQ, Financial Executives International (FEI), The Institute of Internal Auditors (IIA), and the National Association of Corporate Directors (NACD), to promote the deterrence and detection of financial reporting fraud.

More information can be found in the Anti-Fraud Collaboration's [news release](#).

CAQ issues new 'Profession in Focus' videos

In November, the CAQ issued two new episodes of its online series, *Profession in Focus*:

- [Episode 53](#) features Frank Casal, vice chair of audit at KPMG LLP. Casal discusses the implications of newly-approved enhancements to the auditor's report in the U.S., the public company auditor's role in cybersecurity, and the impact on the audit of advanced data analytics, artificial intelligence, and other technological changes.
- [Episode 54](#) features Professor Richard Hatfield of the University of Alabama's Culverhouse School of Accountancy. Hatfield, who is also president of the Auditing Section of the American Accounting Association, discusses the benefits that the Auditing Section brings to academia and the profession, the factors that drive his work, and the impact of technology on accounting and auditing research.

Upcoming Events

December 11-12

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

December 11-15

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

December 12

PCAOB Webinar: New Auditor's Report – Overview of Changes Effective in 2017 ([Link](#))

December 13

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

December 13-14

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

2018

January 10

PCAOB Webinar: New Auditor's Report – Overview of Changes Effective in 2017 ([Link](#))

May 2-4

AICPA CFO Conference, New York, NY ([Link](#))

May 15-17

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

September 17-19

AICPA National Conference on Banks & Savings Institutions, National Harbor, MD ([Link](#))

CAQ

Public Policy and 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.

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.

