



February 2013

# A&A Update

## The Technical Standards Update of Crowe Horwath International

### From the Standards Setters

TECHNICAL CORRECTION TO THIS ITEM CONTAINED IN LAST MONTH'S NEWSLETTER

Three substantive changes in the AICPA Clarified Auditing Standards (AU-C)

Three of the substantive changes in the AU-C effective for audits of 2012 calendar year financial statements that will likely affect every auditor are the new requirements for (1) headings and changed language for each section of the auditor's report, (2) the requirement to conduct substantive audit work for new clients in order to rely on the opening balances, and (3) an engagement letter for each year MAY BE APPROPRIATE instead of relying on a multiyear letter. See AU-C 210.9, 10 and 13, and AU-C 210.A33-34 for clarification.

#### **AICPA SAS No. 127, *Omnibus SAS—2013*, amends Sections 600 and 800 of SAS No. 122**

The AICPA issued amendments to its auditing standards for when to reference the audit of a component auditor in the auditor's report on the group financial statements. Section 600 of SAS 122, *Statements on Auditing Standards: Clarification and Recodification*, precludes making reference to the audit of a component auditor in the auditor's report on the group financial statements unless the component's financial statements are prepared using the same financial reporting framework (FRF) as that used for the group financial statements. The amendments permit making reference to the audit of a component auditor in the auditor's report on the group financial statements when the component's financial statements are prepared using a different FRF than that used for the group financial statements, if certain conditions are met. The amendments also add a requirement, when reference is made to a component auditor's report on financial statements prepared using a different FRF, for the auditor's report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the FRF used by the group. The amendments also add application material that addresses making reference when the FRFs differ.

#### **FASB Issues Proposed Clarification to Fair Value Disclosure Exemption Affecting Private Companies and Nonpublic Not-for-Profit Organizations**

In January, the FASB issued a proposed ASU to clarify the scope and applicability of a disclosure exemption that is specific to private companies and nonpublic not-for-profit organizations. Stakeholders are asked to review and provide comments on the proposal by January 22, 2013.

The proposed ASU would clarify that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not

apply to private companies and nonpublic not-for-profit organizations for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed.

The proposed ASU is available for review and comment at [www.fasb.org](http://www.fasb.org).

### **FASB Proposes to Change Some Repo Agreement Accounting**

FASB has issued for public comment a proposal to improve financial reporting about repurchase agreements such as the type used by Lehman Brothers. In brief, more repo agreement would have to be treated as on balance sheet financing as opposed to sales.

The proposed ASU is available for review and comment [here](#).

### **AICPA Committee Withdraws Compilation, Association ED**

The AICPA Accounting and Review Services Committee (ARSC) has voted to withdraw its compilation and association exposure draft in response to comment letters from stakeholders. The proposal would have revised the applicability of the compilation standard, but would have retained the compilation service as an attest service.

ARSC Chairman Michael Brand said in a statement that after reviewing the 92 comment letters ARSC received on the proposed standards, “two primary concerns came through very clearly.”

- (1) Comments suggesting that the compilation service should be positioned as a non-attest service consistent with the positioning of preparation of financial statements.
- (2) Comments expressing confusion between the two proposed standards and the suggestion that they be combined and simplified.

ARSC will immediately begin work on a proposal that will respond to these major concerns. A new ED is expected to be issued in the late spring or early summer.

The withdrawal of this ED does not affect the review ED that is outstanding, with comments due April 26.

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## From the Regulators

### **SEC Division of Corporation Finance updates Financial Reporting Manual**

The SEC staff updated its Financial Reporting Manual (FRM) to revise the staff's views about, among other things, determining significance under the income test for the acquisition of businesses that are considered “related.” When testing significance, registrants should use the combined income or loss of all related businesses acquired even when the related businesses are not eligible to present combined financial statements.

### **Conflict Mineral Reports Present Challenges for Auditors (of interest to those with SEC clients)**

The new rules requiring SEC registrants to search their supply chains for “conflict minerals” has created new business opportunities, but also significant uncertainty. As yet, there is little consensus about what the audit requirements will be, at least not the details, perhaps leaving auditors to fill in the blanks.

Under the new rules, if a company determines its supply chain contains minerals blamed for fueling violence in Central Africa, it will have to file a “Conflict Minerals Report” with the SEC and publish the report on its website. The reports, which will outline to the SEC all of the due diligence the company performed as it scoured its supply chain, must be independently audited. The SEC's rules allow for

“performance audits.” Unlike financial audits and attestation reports, performance audits don’t use a standard form and language, but are more of a free-flowing narrative that offers an array of opinions and recommendations.

In the context of the conflict minerals rules, no one knows exactly what a performance audit will look like, and the SEC isn’t required to publish standards for such audits. The uncertainty will present challenges for both the auditing community and companies seeking to comply with the rule.

### **SEC's Accounting Quality Model Expected to Spot Possible Fraud**

The SEC is a year away from delivering its so-called Accounting Quality Model -- a system that will analyze submitted regulatory filings with an eye to spotting fraud. It will use XBRL tags and allow SEC staff members to create customized reports for any company. The system will be able to statistically distinguish non-discretionary accruals from discretionary accruals that may flag fraud. **Editor’s note:** Some readers may have heard me say that in the future, financial statements as we know them will become largely irrelevant, and what users will want assurance about is that the XBRL tagging of financial information is accurate. Perhaps that day is not so far off.

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## Headlines from around the world

### **Public Sector Corruption**

According to *Transparency International*, in most parts of the world, the perceived level of corruption of countries has remained the same during the past year. But, countries going through severe financial crises or government upheaval dropped in *Transparency International's* annual Corruption Perceptions Index, which was released in December 2012. The 2012 index measured perceived corruption in 176 countries, using a variety of data sources.

For more information consult *Transparency International's* website by clicking [here](#).

### **President Obama Nominates Mary Jo White as New Chair of SEC**

President Obama nominated Mary Jo White to be the new chair of the SEC. If confirmed by the Senate, Ms. White will replace Elisse Walter as chairman. Ms. White is a former US Attorney for the Southern District of New York.

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## Useful Links

- International Accounting Standards Board (IASB) [www.iasb.org](http://www.iasb.org)
- IASB Exposure Drafts open for comment <http://www.ifrs.org/Open-to-Comment/Pages/International-Accounting-Standards-Board-Open-to-Comment.aspx>
- International Auditing and Assurance Standards Board (IAASB) [www.ifac.org/iaasb](http://www.ifac.org/iaasb)
- International Federation of Accountants (IFAC) [www.ifac.org](http://www.ifac.org)
- IFRS Interpretations Committee (IFRIC) <http://www.ifrs.org/IFRSs/Pages/IFRICs.aspx>
- Financial Accounting Standards Board (FASB) [www.fasb.org](http://www.fasb.org)
- Public Company Accounting Oversight Board (PCAOB) [www.pcaob.org](http://www.pcaob.org)
- American Institute of CPAs Auditing Standards Board (AICPA ASB) <http://www.aicpa.org/Research/Standards/AuditAttest/Pages/audit%20and%20attest%20standards.aspx>
- United States Securities and Exchange Commission (SEC) [www.sec.gov](http://www.sec.gov)
- European Commission (EC) [ec.europa.eu/internal\\_market/index\\_en.htm](http://ec.europa.eu/internal_market/index_en.htm)

- Forum of Firms (FoF) [www.ifac.org/Forum\\_of\\_Firms](http://www.ifac.org/Forum_of_Firms)
  - Transnational Auditors Committee (TAC) [www.ifac.org/TransnationalAuditors](http://www.ifac.org/TransnationalAuditors)
  - TAC Guidance Statement No. 1, Definition of Transnational Audit - [web.ifac.org/download/TAC\\_Guidance\\_Statement\\_1.pdf](http://web.ifac.org/download/TAC_Guidance_Statement_1.pdf)
  - UK Financial Reporting Council [www.frc.org.uk](http://www.frc.org.uk)
  - AICPA Center for Audit Quality document explaining PCAOB inspections <http://www.theqa.org/resources/pdfs/GuidetoPCAOBInspections.pdf>
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Editor-in-Chief: Howard Sibelman  
Editors: David Chitty, Beth Share