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Keeping You Informed

Second Quarter Accounting and Financial Reporting Developments

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Second Quarter Highlights

During the second quarter of the 2017 calendar year, the Financial Accounting Standards Board (FASB) issued two standards addressing:

- Modification accounting for share-based payment awards
- Service concession arrangements between an operator and a public sector entity

The focus for the Securities and Exchange Commission (SEC) during the quarter continued to be on the implementation of new accounting standards, non-generally accepted accounting principles (non-GAAP) measures, and auditor independence.

We also discuss the standard on the auditor's reporting model from the Public Company Accounting Oversight Board (PCAOB) as well as resources released by the Center for Audit Quality (CAQ) and the American Institute of CPAs (AICPA).

From the FASB

Final Standards

Modification Accounting for Share-Based Payment Awards

The FASB issued Accounting Standards Update (ASU) 2017-09, [“Compensation – Stock Compensation \(Topic 718\): Scope of Modification Accounting”](#), on May 10, 2017, to address diversity in practice and provide guidance for which share-based payment award changes require modification accounting. Today, some entities evaluate whether changes are substantive, some apply modification accounting for any change unless it's purely administrative, and others apply modification accounting when the change results in a change to the fair value, vesting, or classification. In addition, questions had been posed on whether changes for the adoption of ASU 2016-09, “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” – namely, changes to statutory tax withholding requirements – would require modification accounting.

Under the new guidance, modification accounting will apply unless all of the following are the same immediately before and after the modification:

- The award's fair value – or calculated value or intrinsic value, if an alternative method is used (Note: If the modification does not affect any inputs to the valuation of the award, estimating the value immediately before and after the modification is not required.)
- The award's vesting provisions
- The award's classification as an equity instrument or a liability instrument

Current disclosure requirements in Topic 718 apply whether or not an entity is required to use modification accounting.

Effective Dates

For all entities, the ASU is effective for fiscal years beginning after Dec. 15, 2017, and interim periods within, which first applies to March 31, 2018, interim financial statements for calendar year-end entities.

Early adoption is permitted, including in an interim period:

- For public business entities (PBEs) in reporting periods for which financial statements have not yet been issued
- For all other entities in reporting periods for which financial statements have not yet been made available for issuance

Transition

Prospective application is required for awards modified on or after the effective date.

Service Concession Arrangements Between an Operator and a Public Sector Entity

On May 16, 2017, the FASB issued ASU 2017-10, “Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a Consensus of the FASB Emerging Issues Task Force),” to address diversity in practice on how an operating entity determines the customer in service concession arrangements. Service concession arrangements are between a public sector entity (grantor) and an operating entity (the entity that operates the public sector entity’s infrastructure, such as airports, toll roads, bridges, hospitals, prisons, and military bases, for a specified period of time).

When applying existing revenue recognition guidance to these arrangements, clarity is needed on how to determine which entity is the customer, including whether the customer is the public sector entity or the third-party user of the infrastructure. Similar issues could arise in applying the new revenue recognition standard – ASU 2014-09 and clarifying standards – to these arrangements.

The new guidance requires that in all cases, the public sector entity (or the grantor) should be identified as the customer in service concession arrangements in the scope of Accounting Standards Codification (ASC) Topic 853. This will result in a change in generally accepted accounting principles (GAAP) for operating entities that previously concluded the customer to these arrangements was the third-party user (for example, third-party drivers for the operation of a toll road or bridge, and third-party airlines or passengers for the operation of an airport).

Effective Dates

For entities that have not adopted the revenue recognition guidance in Topic 606 prior to May 16, 2017 (issuance date for ASU 2017-10), the effective date for the new guidance is the same as the effective date for Topic 606.

For entities that already have early adopted the guidance in Topic 606 prior to May 16, 2017 (issuance date for ASU 2017-10), the new guidance is effective as follows:

- For PBEs, certain not-for-profit entities, and certain employee benefit plans, in fiscal years beginning after Dec. 15, 2017, including interim periods within
- For all other entities, in fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019

Entities may adopt the new guidance early, including in an interim period.

Transition

For entities that have not adopted Topic 606 prior to May 16, 2017 (issuance date for ASU 2017-10), transition requirements are the same as the requirements for Topic 606.

If an entity has already adopted Topic 606, the entity must use either 1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or 2) a retrospective approach for the new ASU. The transition method for the new ASU is not required to be the same as the transition method used when adopting Topic 606. However, the entity must use the same practical expedients that the entity elected to use in paragraph 606-10-65-1(f) when initially applying Topic 606, as applicable.

If an entity adopts ASU 2017-10 prior to adopting Topic 606, the entity must use either 1) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption or 2) a retrospective approach. Also, if early adoption of ASU 2017-10 is elected before adopting Topic 606, the practical expedients provided in ASC 606-10-65-1(f) may not be used.

Proposals

Targeted Improvements to the Variable Interest Entity (VIE) Model – Related Party Guidance

On June 22, 2017, the FASB issued a proposal, [“Consolidation \(Topic 810\): Targeted Improvements to Related Party Guidance for Variable Interest Entities,”](#) that aims to improve VIE guidance for related party matters that have arisen related to the consolidation guidance in ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.”

These are elements of the proposal:

- The proposal would expand the private company accounting alternative for common control leasing arrangements provided by ASU 2014-07, “Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements,” beyond just leasing arrangements so that private entities could elect not to apply VIE consolidation guidance to any legal entities that are under common control if neither the parent nor the legal entity is a PBE.
- The proposal would revise the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis. This revision would be consistent with the analysis for determining whether a reporting entity in a related party group is the primary beneficiary of a VIE by including indirect interests on a proportional basis (pursuant to amendments in ASU 2016-17, “Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control”).

- The proposal would eliminate mandatory consolidation for circumstances in which power is shared among related parties or when commonly controlled related parties, as a group, have the characteristics of a controlling financial interest but no reporting entity individually has a controlling financial interest. Instead, a reporting entity in the related party group under common control or in a related party shared power situation would apply a set of four factors to assess its own decision-making power and whether it has a controlling financial interest in the VIE. In addition, when related parties under common control, as a group, have a controlling financial interest, the parent entity would consolidate the VIE unless a scope exception applies.

Comments are due Sept. 5, 2017.

Technical Corrections and Improvements for Steamship Entities

On June 27, 2017, the FASB issued a proposal, “Technical Corrections and Improvements to Topic 995, U.S. Steamship Entities – Elimination of Topic 995,” to eliminate obsolete accounting guidance on deferred taxes for steamship entities that had statutory reserve deposits that were made before Dec. 15, 1992. The 25-year time frame provided for these statutory reserve deposits is expiring this year, and the board believes that the guidance can be eliminated because any remaining unrecognized tax liabilities resulting from deposits would already have been recognized. If an entity has unrecognized deferred income taxes related to statutory reserve deposits made on or before Dec. 15, 1992, the entity would recognize the unrecognized income taxes in accordance with Topic 740.

The board expects no change in current practice.

Comments are due Aug. 28, 2017.

Technical Corrections and Improvements for Depository and Lending Entities

On June 27, 2017, the FASB issued a proposal, “Technical Corrections and Improvements to Topic 942, Financial Services – Depository and Lending – Elimination of Certain Guidance for Bad Debt Reserves of Savings and Loans,” to eliminate obsolete accounting guidance on deferred taxes for bad debt reserves of savings and loans that arose after Dec. 31, 1987, and guidance related to the Comptroller of the Currency’s Banking Circular, “Accounting for Net Deferred Tax Charges (Circular 202).” The board believes that these particular post-1987 bad debt reserves should have been recaptured by the relevant entities in full by 2008, and the related guidance is no longer relevant.

The board expects no significant change in current practice.

Comments are due Aug. 28, 2017.

Other Projects on Our Watch List

Transition Resource Group (TRG) for Credit Losses

On June 12, 2017, the FASB's TRG for credit losses met to discuss the following implementation matters for ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”

- Consideration of prepayments in the discount rate used in a discounted cash flow method
- When beneficial interests (as defined in the FASB ASC) may be within the scope of purchased credit deteriorated (PCD) asset accounting
- Transitioning pools of purchased credit impaired (PCI) assets to PCD assets
- Forecasting reasonably expected TDRs
- Acceptable methods for estimating the life of a credit card receivable

Issue memos and the agenda are available on the FASB website. A recording of this meeting also is available for viewing on the past FASB meetings web page.

From the SEC

Leadership

SEC Chair

On May 4, 2017, Jay Clayton was sworn in as the new SEC chair. Clayton comes from the law firm Sullivan & Cromwell LLP, where he was a partner advising clients on capital raising and trading matters in the United States and abroad.

Division of Corporation Finance (Corp Fin) Director

On May 9, 2017, Clayton announced that William H. Hinman will be the new director of Corp Fin. Hinman recently retired as a partner at Simpson Thacher & Bartlett LLP, where he advised public and private companies, including issuers and underwriters, on capital-raising transactions and acquisitions.

Speeches

Revenue Standard Disclosures, COSO Framework, Operating Metrics, and Auditor Independence

In his remarks at the 2017 Baruch College Financial Reporting Conference on May 4, 2017, SEC Chief Accountant Wesley R. Bricker discussed implementation of the major accounting standards, internal control, operating metrics, and auditor independence.

He urged preparers not to delay implementation efforts for the new disclosures required under the revenue recognition standard, and he cautioned preparers that the disclosures may be among the most challenging tasks in adopting the standard.

On internal control over financial reporting (ICFR), he asked those who use the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework to adopt the updated 2013 "Internal Control – Integrated Framework" issued by COSO if they have not already done so. He also requested that COSO monitor the evolution of business and operating environments to determine whether further updates are necessary.

He mentioned not-often-discussed operating metrics and forecasts and stated that lessons learned on the presentation of non-GAAP measures could be applied to reporting of other types of financial information. He offers the following recommendations:

- Understand how the financial information is defined.
- Ensure that robust disclosure controls and procedures are in place.
- Consider insight from outside the finance and investor relations functions of the company.

Finally, on the topic of auditor independence, he mentioned a recent consultation about an auditor proposing (prior to dismissal) on prohibited nonaudit services to be performed after the end of the audit and professional engagement period, and he noted the SEC staff's view that this potentially could impair an auditor's independence. In addition, he noted that while the firm is still the auditor, the proposal could adversely affect the auditor's professional skepticism.

Non-GAAP Measures and Disclosure of Recently Issued Accounting Standards

In his remarks before the 2017 Baruch College Financial Reporting Conference on May 4, 2017, Corp Fin Chief Accountant Mark Kronforst focused primarily on non-GAAP disclosures and the disclosure of recently issued accounting standards.

He opened by noting recent improvements in non-GAAP disclosures under Regulation G as issuers have re-evaluated their non-GAAP disclosures in response to the updated Compliance & Disclosure Interpretations released in May 2016. After observing an implementation period for the new guidance, Corp Fin sent registrants comment letters related to non-GAAP disclosures, primarily focused on the following areas:

- Non-normal cash expenses – A non-GAAP adjustment for non-normal cash expenses should not include recurring cash expenses, such as advertising and marketing. That is, recurring cash expenses should be considered “normal” cash expenses.
- Cherry-picking – Non-GAAP disclosures that adjust for unusual or one-time charges also should be adjusted for unusual or one-time gains.
- Accelerating revenue – The acceleration of revenue should be included in non-GAAP disclosures only if new or changing accounting standards would cause a change in revenue recognition.
- Per share liquidity measures – Cash flow per share disclosures are prohibited.
- Income taxes – If the non-GAAP disclosures present an alternative calculation of net income, the non-GAAP disclosures should include the income tax effects on that amount.

Kronforst also noted that if a prospective non-GAAP measure is provided in the disclosures, then a GAAP measure and a reconciliation between the two measures should be presented. He further noted, however, that Regulation G includes an exception that allows issuers to provide only prospective non-GAAP measures if the reconciliation and corresponding prospective GAAP measure would require “unreasonable efforts.” Kronforst stated Corp Fin has not issued comment letters challenging issuers who have used the unreasonable efforts exception and has no plan to focus on it in the future.

Kronforst noted that Regulation G requires issuers to present GAAP measures with at least equal prominence to non-GAAP measures. The SEC's position is that equal prominence requires that GAAP measures be disclosed before non-GAAP measures, because presenting non-GAAP measures first inherently gives less prominence to the GAAP measures.

Finally, he noted that Corp Fin has begun issuing comments on the topic of Staff Accounting Bulletin (SAB) 74 requirements pertaining to the disclosure of recently issued accounting standards. SAB 74 disclosures should include not only cumulative effects of adoption of the standards but also changes to disclosures and new material information that will be provided in the financial statements as a result of the adoption of the standard.

Non-GAAP Measures

At the 36th annual SEC and Financial Reporting Institute Conference on June 8, 2017, Mark Kronforst revisited the status of the non-GAAP disclosure requirements and their implementation. In his remarks while participating on a panel, he noted that implementation of Corp Fin's May 2016 Compliance & Disclosure Interpretations are considered to be a success.

Kronforst noted that the SEC's focus in reviewing non-GAAP measures remains on verifying that non-GAAP measures presented by companies are not materially misleading to the users of the financial statements. He struck an optimistic note, observing that companies have made substantial progress in addressing problems involving non-GAAP measures but should expect continued scrutiny on the following areas:

- Tailored accounting principles, with the main focus on revenues
- Financial statement presentation that consolidates equity investees and controlled entities on a theory of proportionate consolidation, which is a particular problem in the REIT (real estate investment trust) industry
- Backing out normal, recurring, cash operating expenses, such as marketing and litigation expenses
- Cherry-picking by disclosing one-time gains but not losses in non-GAAP measures
- Prominence – noting that the GAAP number always should come first, including in the earnings release and the GAAP reconciliation
- Per share liquidity measures, which are prohibited
- Non-GAAP forward-looking earnings per share (EPS) guidance
- Calculation and presentation of income tax effects – so that if the non-GAAP disclosures present an alternative calculation of net income, the non-GAAP disclosures should include the income tax effects on that amount

Kronforst was asked why stock compensation is still allowed as a non-GAAP adjustment. He noted that the stock compensation expenses were not a focus of the project, and the staff did not find stock compensation adjustments to be misleading under existing rules.

Another question dealt with where there is still room for improvement for some companies' non-GAAP disclosures. Kronforst emphasized the importance of establishing controls related to decisions on non-GAAP measures and adjustments, including disclosure controls and procedures. In addition, he stressed the importance of the audit committee's role in being more vigilant in overseeing management's use of non-GAAP measures to avoid bias and ensure compliance with the requirements.

Last, a question was posed in relation to an auditor's role and involvement in the company's implementation of and compliance with non-GAAP disclosure requirements. According to Kronforst, although non-GAAP disclosures are outside of the scope of the audit, auditors should read and consider the non-GAAP disclosures to verify that certain information is consistent with the audited financial statements. Auditors should sit down with the audit committee, internal audit, and management to talk about controls, comparability, transparency, and consistency of applying the non-GAAP measures.

Revenue Recognition

Sylvia E. Alicea, professional accounting fellow in the SEC's Office of the Chief Accountant, delivered the keynote address at the Bloomberg BNA Conference on Revenue Recognition on May 8, 2017. She covered matters related to implementation of the new revenue recognition standard, including:

- Observations from recent consultations about application of the standard
- Reminders on transition disclosures
- Responsibilities of management and audit committees related to ICFR when implementing new GAAP standards

Alicea's observations included the need to identify and evaluate all relevant contractual terms when identifying the contract, because the terms may affect accounting conclusions. She also noted that identifying "performance obligations" is a new concept under the revenue standard. Highlighting the new disclosure requirements, she stated, "[t]he pertinent facts and related reasonable judgments related to a registrant's contracts with customers, including the significant judgments made in applying the principles of the new revenue standard, should be disclosed to better inform investors' decisions."

Regarding transition disclosures, Alicea reminded preparers of the SAB 74 disclosure guidance. The design process for those controls should contemplate the nature and objective of the transition disclosures as well as the status of the company's implementation efforts. She emphasized that the new disclosures might be material even if the dollar impact to the balance sheet or income statement is not material. Disclosure on the impact of the new standard should reflect consideration of recognition, measurement, presentation, and disclosure. She clarified that the SAB 74 reference to financial statements also covers the notes to the financial statements.

Pending Audit Standard, New Accounting Standards, and Auditor Independence

On June 8, 2017, SEC Chief Accountant Wesley R. Bricker addressed the 36th annual SEC and Financial Reporting Institute Conference and covered the following topics:

- The PCAOB's new auditing standard on the auditor's report, which the SEC is expected to make available for public comment before voting
- The importance of oversight and governance of international audit standards in delivering high-quality audits internationally
- The new accounting standard on revenue recognition, including involvement by the audit committee and auditor during implementation, and reminders of the importance of the new required disclosures and transition disclosures as described in SAB 74
- The new accounting standards on leases, classification and measurement of financial instruments, and credit losses, including an emphasis on the scoping exercise for each of those standards and a recommendation to perform implementation activities for these major standards concurrently instead of doing it sequentially
- The importance of ICFR, including in the implementation periods for the new major accounting standards
- Auditor independence, specifically in the context of an audit committee selecting a successor auditor, including consideration of whether the successor auditor would be independent under SEC rules if the successor auditor were engaged to audit prior-period financial statements (for example, in the event of a restatement) or whether the predecessor auditor's independence would be impaired by relationships entered into after the end of the engagement period

Confidential Draft Registration Statements for Initial Public Offerings

In an announcement on June 29, 2017, the SEC said that beginning on July 10, 2017, Corp Fin will allow all companies to submit draft registration statements for initial public offerings (IPOs) for nonpublic (or confidential) review. Certain foreign private issuers and emerging growth companies already enjoy this accommodation. A company will be permitted to submit registration statements to the SEC in order to start the SEC staff's review of an IPO filing before the company announces to the public that it is pursuing an IPO.

From the PCAOB

Auditor's Reporting Model

On June 1, 2017, the PCAOB adopted a new auditing standard, ["The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion,"](#) that will require auditors to provide additional information in their reports. The standard is subject to SEC approval before it can become effective, and if approved, it will apply to audits conducted under PCAOB standards.

The new standard significantly modifies the auditor's report while retaining the pass-fail reporting model. The most significant change to the auditor's report is the requirement to communicate in the report any critical audit matters (CAMs) arising during the current period audit. A CAM is defined as a matter that has these elements:

- Has been or was required to be communicated to the audit committee
- Relates to accounts or disclosures that are material to the financial statements
- Involves especially challenging, subjective, or complex auditor judgment

The auditor's report will include:

- The identification of the CAMs
- A description of the principal considerations that led the auditor to determine that the matter was a CAM
- A description of how the CAM was addressed
- A reference to the relevant financial statement accounts and disclosures

The standard does not require communication of CAMs for audits of emerging growth companies, brokers and dealers, investment companies other than business development companies, and employee stock purchase, savings, and similar plans.

Other changes to the auditor's report include:

- Disclosure of the auditor's tenure
- A statement on independence
- Addition of the phrase "whether due to error or fraud" regarding whether the financial statements are free of material misstatements
- Standardized form on the auditor's report
- Requirement that the report be addressed to at least the company's shareholders and board of directors or equivalents

The effective date is for audits of fiscal years ending on or after Dec. 15, 2017, for all provisions other than the disclosures of the CAMs. The CAMs disclosures are effective for large accelerated filers, in audits of fiscal years ending on or after June 30, 2019, and for all other companies, in audits of fiscal years ending on or after Dec. 15, 2020.

Naming the Engagement Partner and Other Audit Firms

The second part of the PCAOB's rules for filing Form AP, "Auditor Reporting of Certain Audit Participants," went into effect at the end of June. The disclosure requirement for naming the engagement partner was effective for auditor's reports issued on or after Jan. 31, 2017, and the requirement to disclose other audit firms participating in the audit was effective for reports issued on or after June 30, 2017.

The PCAOB adopted, on Dec. 15, 2015, and the SEC later approved, on May 9, 2016, rules to provide investors with more information about participants in public company audits. In accordance with the rules, auditors are required to file a PCAOB Form AP for each issuer audit. Information to be disclosed includes:

- Engagement partner name
- Names, locations, and extent of participation of other accounting firms that took part in the audit and whose work constituted 5 percent or more of the total audit hours
- Number and aggregate extent of participation of all other accounting firms that took part in the audit whose individual participation was less than 5 percent of the total audit hours

The standard deadline for filing Form AP is 35 days after the date the auditor's report is first included in an SEC-filed document. However, for initial public offerings, the Form AP filing deadline is 10 days after the auditor's report is first included in an SEC-filed document.

The PCAOB provides more guidance on its website for "Form AP: Auditor Reporting of Certain Audit Participants," including staff guidance updated on Feb. 16, 2017.

On June 20, 2017, the CAQ issued "Form AP – Auditor Reporting of Certain Audit Participants: A Tool for Audit Committees," which can help audit committees participate in the dialogue about the role of audit participants and the new disclosures. Previously, on Dec. 19, 2016, the CAQ issued Alert 2016-03, "Form AP, Auditor Reporting of Certain Audit Participants," to serve as a resource and reminder of considerations related to the new Form AP reporting. The alert includes a number of frequently asked questions on the reporting and disclosure requirements of the new form.

From the CAQ

Disclosures for New Accounting Standards

On June 28, 2017, the CAQ issued Alert 2017-03, on SEC SAB 74 disclosures, “SAB Topic 11.M – A Focus on Disclosures for New Accounting Standards,” to assist in evaluating whether management’s disclosure of the potential effects of recently issued accounting standards are adequate. The tool addresses what SAB 74 disclosures should communicate to users of financial statements, progress on implementing the standards, internal control considerations, and auditor responsibilities.

Preventing Misstatements in Complex Accounting Areas

On March 16, 2017, the Anti-Fraud Collaboration, which comprises the CAQ, Financial Executives International, the Institute of Internal Auditors, and the National Association of Corporate Directors, released a report, “Addressing Challenges for Highly Subjective and Complex Accounting Areas,” which compiles recommendations for ways to help deter financial reporting misstatements due to error or fraud.

Audit committee members, corporate executives, internal and external auditors, and regulators met at two 2016 workshops that explored certain SEC enforcement actions where the SEC asserted that there were serious issues with companies’ ICFR. Based on these discussions, the report provides recommendations on improving accounting policies, internal controls, and staffing for highly subjective and complex areas, including a specific focus on revenue recognition.

In addition, the Anti-Fraud Collaboration hosted a webcast on July 11, 2017, to share recommendations on how companies can improve accounting policies and internal controls in order to detect and deter fraud and reduce the number of financial restatements.

External Auditor Assessment Tool

The CAQ, in conjunction with the Audit Committee Collaboration, released, on April 18, 2017, an updated version of its “External Auditor Assessment Tool: A Reference for U.S. Audit Committees,” to help audit committees, particularly those serving public companies, evaluate the external auditor, including appointing, overseeing, and determining compensation. The tool does not offer a one-size-fits-all approach; instead, it is a comprehensive yet scalable resource that encourages proactive efforts by audit committees.

The tool includes sample questions in three areas:

- The auditor’s quality of services and sufficiency of resources
- The auditor’s quality of communication and interaction
- The auditor’s independence, objectivity, and professional skepticism

A sample form and rating scale are included and can be used to collect input from company personnel about the external auditor. Additional resources are aimed at audit committees and others charged with governance.

The tool was last issued in June 2015; updates in the 2017 edition address:

- Changes in accounting standards and potential risk areas, such as implementation of the new revenue recognition standard
- Use of non-GAAP financial information
- Ongoing cybersecurity concerns

Cybersecurity Risks

On the heels of the American Institute of CPAs’ release of the cybersecurity risk management reporting framework and related attest guide (see the next section), the CAQ released a white paper, “The CPA’s Role in Addressing Cybersecurity Risk,” on May 24, 2017. The paper examines today’s cybersecurity risks and threats and how the auditing profession can improve stakeholder confidence in cybersecurity information provided by management with the use of the framework. Included in the paper are summaries of the significant components and objectives of the framework as well as frequently asked questions on the framework.

The white paper notes that in the current technological environment, organizations face varying cyberthreats, and stakeholders must gather information and communicate with each other about cybersecurity. It also notes that the CPA profession can address these issues through its values and experience in auditing IT controls and providing independent assessments.

From the AICPA

Cybersecurity Risk Management Reporting Framework

On April 26, 2017, the AICPA announced the release of a voluntary reporting framework that addresses risk management and reporting of cybersecurity threats. With the announcement, two sets of criteria under the framework were released:

- “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.”

The attest guide, “Reporting on an Entity’s Cybersecurity Risk Management Program and Controls,” was released in May.



Learn More

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