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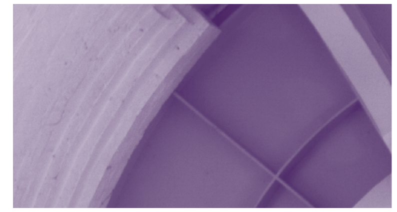

AUDIT RISK ALERT

2015/16

General Accounting and Auditing Developments

Strengthening Audit Integrity | Safeguarding Financial Reporting

AICPA®

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Notice to Readers

This Audit Risk Alert (alert) replaces *General Accounting and Auditing Developments—2014/15*.

This alert is intended to provide auditors of financial statements with an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform. This alert can also be used by an entity's internal management to address areas of audit concern.

This publication is an other auditing publication, as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply generally accepted auditing standards.

In applying the auditing guidance included in an other auditing publication, the auditor should, using professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

Recognition

The AICPA gratefully acknowledges those members of the Auditing Standards Board (ASB) and the AICPA Technical Issues Committee who helped identify the interest areas for inclusion in this alert.

AICPA Staff

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Technical Manager
Accounting and Auditing Publications

Feedback

The Audit Risk Alert *General Accounting and Auditing Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments you have about the alert would also be appreciated. You may email these comments to A&APublications@aicpa.org.

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How This Alert Helps You

.01 This alert helps you plan and perform your audits and can be used by an entity's internal management to identify issues significant to the industry. It also provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool to help you identify the risks that may result in the material misstatement of financial statements, including significant risks requiring special audit consideration. For developing issues that may have a significant impact in the near future, the "On the Horizon" section provides information on these topics. Refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

.02 It is essential that the auditor understand the meaning of audit risk and the interaction of audit risk with the objective of obtaining sufficient appropriate audit evidence. Auditors obtain audit evidence to draw reasonable conclusions on which to base their opinion by performing the following:

- Risk assessment procedures
- Further audit procedures that comprise the following:
  - — Tests of controls, when required by generally accepted auditing standards (GAAS) or when the auditor has chosen to do so
  - — Substantive procedures that include tests of details and substantive analytical procedures

.03 The auditor should develop an audit plan that includes the nature and extent of planned risk assessment procedures, as determined under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*). AU-C section 315 defines *risk assessment procedures* as the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels. As part of obtaining the required understanding of the entity and its environment, paragraph .12 of AU-C section 315 states that the auditor should obtain an understanding of the industry, regulatory, and other external factors, including the applicable financial reporting framework, relevant to the entity. This alert assists the auditor with this aspect of the risk assessment procedures and further expands the auditor's understanding of other important considerations relevant to the audit.

Economic and Industry Developments

The Current Economy

.04 When planning an audit, auditors need to understand the economic conditions facing the industry in which an entity operates, as well as the effects of these conditions on the entity itself. These external factors, such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, and labor market conditions, are likely to have an effect on an entity's business and, therefore, its financial statements. Considering the effects of external forces on an entity is part of obtaining an understanding of the entity and its environment. Recognizing that economic conditions and other external factors relevant to an entity and its environment constantly change, auditors should evaluate whether changes have occurred since the previous audit that may affect their reliance on any information obtained from their previous experience with the entity. These changes may affect the risks and risk assessment procedures applicable to the current year's audit.

.05 During 2014 and into 2015, the U.S. economy continued to recover. The S&P 500 and the Dow Jones Industrial Average both reached all-time highs during 2015. The Chicago Board Options Exchange Volatility Index (VIX) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock option prices and is considered by many to indicate investor sentiment, market volatility, and the best gauge of fear in the market. The VIX continued to show a steady decline during the end of 2014 and into 2015. During that time, prices ranged from 31.06 to 10.88. The volatility shows there is still some uncertainty; however, the continued downward trend shows that investors believe the economy and market are improving.

Key Economic Indicators

.06 The following key economic indicators reaffirm the recovery of the economy during the end of 2014 and into 2015: gross domestic product (GDP), unemployment, and the federal fund rate. The GDP measures output of goods and services by labor and property within the United States. It increases as the economy grows and decreases as it slows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 2.3 percent in the second quarter of 2015, based on the advance estimate (second estimate), and increased at an annual rate of 0.6 percent in the first quarter of 2015. The increase in real GDP in the second quarter has been attributed to positive contributions from personal consumption expenditures, state and local government spending, and residential fixed investments, among other factors.

.07 From August 2014 to August 2015, the unemployment rate fluctuated between 6.1 percent and 5.3 percent. A rate of 5.3 percent represents approximately 8.3 million people who are unemployed. Based on the Bureau of Labor Statistics (BLS), from August 2014 to August 2015, the average employment growth was 246,000 per month. During that same time period, the number of long-term unemployed (those jobless for 27 weeks or more) decreased by 59,000, indicating more growth in the economy. Based on the BLS, the number of people employed part-time for economic reasons decreased to 6.3 million during the second quarter of 2015. Together, these statistics illustrate the continued improvement in the economy.

.08 The Board of Governors of the Federal Reserve System (Federal Reserve) decreased the target for the federal funds rate more than 5.0 percentage points, from its high of 5.25 percent prior to the financial crisis, to less than 0.25 percent, where it remains through August 2015. The Federal Reserve indicates that the target range for federal funds rates of 0.0 to 0.25 percent is appropriate as long as the unemployment rate stays above 6.5 percent, inflation over the next two years is projected to be less than 0.5 percent above the 2.0-percent longer-run goal, and longer-term inflation projections continue to be low.

Legislative and Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

.09 The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law in July 2010 in response to weaknesses in the financial services industry that are believed to have contributed to the economic recession. The main goals of the reform are to lower the systemic risks to the financial system and enhance consumer protections.

.10 This reform represents the greatest challenge to financial regulation since the Great Depression and suggests that the era of hands-off regulation and increased deregulation of the financial services industry has come to an end.

Update on Rulemaking Progress

.11 The act implements changes that affect the oversight and supervision of financial institutions and creates many new agencies. Based on an overview by the Securities Industry and Financial Markets Association, the Dodd-Frank Act requires approximately 250 new regulations to be written by various regulatory agencies. The goal of the rulemaking process is to make sure the final regulations are balanced, consistent with the intent of the initial legislation, and avoid unintended consequences.

.12 Progress in rule-making has continued. The SEC has adopted final rules for 61 mandatory rulemaking provisions of the Dodd-Frank Act. Of the 10 major categories of rules, 4 have been completed and 4 others will be completed if the proposed rules are adopted.

.13 Among many changes, the act resulted in the following:

- Created new regulations for companies that extend credit to customers
- Exempted small public companies from having to engage their auditors to issue an opinion on internal controls over financial reporting (Section 404b of the Sarbanes-Oxley [SOX] Act)
- Made auditors of broker-dealers subject to oversight by the PCAOB
- Changed registration requirements for investment advisors

Inspections of Broker-Dealer

.14 On August 18, 2015, the PCAOB released its annual inspection report on the interim inspection program for broker-dealers. The report, "Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers," is the fourth such report issued. It is based on inspections of 106 broker-dealer audits performed under GAAS, by 66 firms. Of the 66 firms, 27 were already subject to PCAOB inspection because they audited public companies. Additionally, the PCAOB selected 7 audits at 7 firms to assess whether, during the current audit, the firms had addressed certain PCAOB observations during a previous inspection of the firm that covered a prior audit of that broker or dealer. At least 1 audit deficiency was identified in the same area as previously identified in each of the 7 audits.

.15 To give some context to the numbers, note that approximately 4,200 broker-dealers filed audited financial statements with the SEC for fiscal periods ended on or before May 31, 2014. Approximately 750 registered public accounting firms audited broker-dealer filings for these periods. Of those, approximately 250 of the firms auditing broker-dealers also audited issuers, and approximately 500 firms performed audits of broker-dealers and are registered with the PCAOB only because they audit nonissuer broker-dealers.

.16 The report notes that deficiencies were identified in 92 of the 106 audits selected for inspection, or 87 percent. In response to the report findings, PCAOB Deputy Director of the Division of Registration and Inspections and Program Leader of the Broker-Dealer Audit Firm Inspection Program, Robert Maday stated, "[w]e have been urging firms that audit broker-dealers to re-examine their audit approaches due to ongoing issues identified during inspections." The deficiencies were observed in a number of areas, including auditing compliance with the applicable regulatory requirements and in other audit areas not specific to an audit of a broker-dealer.

.17 A summary of the deficiencies follows. For detailed report findings, see PCAOB Release No. 2015-006, *Annual Report on the Interim Inspection Program Related to Audits of Brokers and Dealers*, available at http://pcaobus.org/Inspections/Documents/BD_Interim_Inspection_Program_2015.pdf.

.18 Findings related to failures to satisfy independence requirements were as follows:

- *Failure to Satisfy Independence Requirements*

  The PCAOB identified independence findings in 26 of the 106 audits selected for inspection. The following further describes the identified findings:

  — In 22 of the audits, by 21 firms, the firms performed bookkeeping or other services related to the accounting records or financial statements of the brokers or dealers. All of these firms prepared, or assisted in the preparation of, the financial statements or supporting schedules required by SEC Rule 17a-5. In addition, some of the firms also prepared journal entries or source data underlying the financial statements of the broker or dealer.

  — In 4 of the audits, by 3 firms, the engagement letters included clauses that the brokers or dealers would indemnify the auditor in the event the auditor incurred certain losses or liability in connection with the engagement.

.19 Audit deficiencies were found related to the customer protection and net capital rules, as follows:

- *Accountant's Supplemental Report on Material Inadequacies*

  In 33 of the 82 audits selected for inspection, the PCAOB identified deficiencies in which the firm's procedures related to 1 or more of the requirements of the accountant's supplemental report on material inadequacies that were assessed during the inspection. The following further describes the identified deficiencies:

  — For 30 of the 80 audits inspected of broker-dealers that claimed an exemption from the requirement to maintain a Special Reserve Account, firms failed to perform any procedures, or limited their procedures to inquiry alone and did not perform sufficient other inquiries or other procedures related to the exemption claimed by the broker or dealer under the Customer Protection Rule.

— In 3 of the 11 audits inspected, firms failed to perform sufficient audit procedures with respect to the accountant's supplemental report on material inadequacies.

- *Compliance With the Customer Protection Rule*

The PCAOB identified 1 or more deficiencies in 8 of 23 audits selected for inspection in which brokers or dealers did not claim an exemption from the requirement to maintain a Special Reserve Bank Account. In addition, deficiencies were identified in another 2 audits in which the broker or dealer claimed an exemption for certain portions of the broker's or dealer's business, but maintained a Special Reserve Bank Account for other portions of the business. The following further describes the identified deficiencies:

— In 7 of the 23 audits inspected, firms failed to sufficiently evaluate the appropriateness and completeness of customer debits or credits included in the customer reserve computation. These firms limited their procedures to agreeing the amounts reported in the computation to schedules prepared by the broker or dealer and did not perform any other procedures to evaluate the appropriateness and completeness of customer debits or credits, including evaluating whether customer debits or credits complied with exhibit A of SEC Rule 15c3-3.

— In 4 of the 23 audits inspected, firms failed to evaluate whether the Special Reserve Bank Account existed or whether the account agreements complied with, and contained the required restrictive provisions of, SEC Rule 15c3-3(f).

— In 3 of the 23 audits inspected, firms failed to perform sufficient procedures to determine compliance with the possession or control requirements. Firms did not perform sufficient procedures to evaluate the appropriateness and completeness of the amounts reported in the supplemental schedule or compare and reconcile them to the underlying accounting and other records used in preparing the financial statements.

- *Compliance With the Net Capital Rule*

The PCAOB identified 1 or more deficiencies in 41 of the 106 audits selected, in which 1 or more component of the net capital computation was selected for inspection. The following further describes the identified deficiencies:

— In 15 of the 106 audits inspected, firms failed to assess the nature of the broker's or dealer's operations in relation to the required minimum net capital amounts in accordance with SEC Rule 15c3-1. For example, in 1 audit, the firm failed to evaluate whether aggregated indebtedness was calculated in accordance with SEC Rule 15c3-1(c)(1) because it failed to evaluate whether there was any accrued interest payable related to the broker's and dealer's reported subordinated liabilities. Therefore, the firm failed to evaluate whether the calculated minimum net capital was in accordance with SEC Rule 15c3-1(a).

— In 1 audit inspected, the firm failed to evaluate whether the amount of the liability for employee bonuses that was added to net worth in the determination of net capital was payable solely at the discretion of the broker or dealer, in accordance with SEC Rule 15c3-1.

— In 26 of the audits inspected, firms did not perform sufficient procedures to test the broker's or dealer's classification of allowable and non-allowable assets when computing net capital, in accordance with SEC Rule 15c3-1; this rule requires that assets not readily convertible into cash ("non-allowable assets") be deducted from equity when computing net capital.

— In 8 of the audits inspected, firms did not perform sufficient procedures related to haircuts on securities. For example, there were instances in which firms failed to evaluate whether haircuts on securities positions were based on the percentages applicable to the categories of securities and maturity dates, if applicable, pursuant to SEC Rule 15c3-1(c)(2)(vi).

— In 8 of the audits inspected, firms failed to perform sufficient procedures to evaluate the appropriateness or completeness of operational charges and other deductions that were deducted from the broker's or dealer's net capital. In computing net capital, SEC Rule 15c3-1 requires brokers and dealers to deduct amounts related to operational charges (such as aged fail to deliver balances) and other deductions (such as excess fidelity bond coverage).

— In 6 of the audits inspected, firms failed to perform sufficient procedures to evaluate compliance regarding the timely notifications of withdrawals of equity capital. For example, in 1 audit, the firm limited its procedures to inquiry of management. In 3 audits, firms failed to evaluate whether the broker's or dealer's withdrawal of equity capital during the year under audit complied with the limitations on withdrawals on equity capital in accordance with SEC Rule 15c3-1(e)(2).

.20 Deficiencies found related to the financial statement audit were as follows:

- *Consideration of Risks of Material Misstatement Due to Fraud*

The PCAOB identified 1 or more deficiencies in 42 of the 100 audits selected for inspection. The following further describes the identified deficiencies:

— In 4 of the audits inspected, firms did not include the engagement team partner in the brainstorming session, or the discussion did not address required content.

— In 5 of the audits inspected, firms did not identify a fraud risk related to revenue recognition; however, the firms also did not perform an assessment to determine whether the circumstances of the engagements overcame the presumption that risks of fraud existed in revenue recognition.

— In 38 of the audits inspected, firms failed to perform sufficient procedures to address risks related to management override of controls, including sufficiently testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. Firms failed to

- obtain an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, and the suitability of design and implementation of such controls;
- make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- consider fraud risk indicators, the nature and complexity of accounts, and entries processed outside the normal course of business;
- select journal entries and other adjustments made at the end of a reporting period; or
- consider the need to test journal entries and other adjustments throughout the period. In 13 of these 38 audits, firms did not test the completeness of the population of journal entries from which they selected a sample for journal entry testing.

— In 13 of the audits inspected, firms failed to design or perform audit procedures whose nature, timing, and extent were responsive to the assessed risks of material misstatement due to fraud related to revenue recognition. For example, the firm's approach to address the identified fraud risk consisted only of substantive procedures. Also, some firms used substantive analytical procedures but did not perform tests of details, as required.

- *Related Party Transactions*

The PCAOB identified 1 or more deficiencies in 18 of the 85 audits in which the auditor's procedures to test related parties and related party transactions were selected for inspection. The following further describes the identified deficiencies:

— In 4 of the audits inspected, firms failed to perform sufficient procedures to determine the existence of related parties and material related party transactions.

Additionally, firms did not inspect records and documents for the purpose of identifying related party relationships or transactions that had not been previously identified or disclosed.

— In 16 of the audits inspected, firms identified related parties or material related party transactions, including service agreements, fee agreements, or intercompany balances, yet the firms did not perform procedures necessary to obtain sufficient appropriate audit evidence to respond to the assessed risks of material misstatement associated with related party relationships and transactions. In 1 of these audits, the firm failed to perform procedures to evaluate whether the broker's or dealer's disclosure of the terms of a certain related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.

- *Revenue Recognition*

The PCAOB identified 1 or more deficiencies in 76 of the 106 audits selected for inspection. The following further describes the identified deficiencies:

— In 51 of the audits inspected, the extent of testing was insufficient for material classes of revenue transactions, including trading gains and losses, commission revenue, and advisory fees. For example, there were instances in which firms (*a*) did not perform any procedures to test material classes of revenue transactions or (*b*) did not appropriately design and perform sampling procedures to test revenue transactions because

- firms did not have a basis to reduce the extent of substantive tests of material classes of revenue transactions, because some of these firms did not sufficiently test controls yet reduced the extent of their substantive tests;
- the sample was not designed to address the relevant risk and did not adequately consider the characteristics of the population; or
- firms failed to select a representative sample of items for testing that was necessary to be able to extend the auditor's conclusions to the entire population (for example, firms limited their sample selections to certain days, weeks, or months during the year and did not select from the entire population).

— In 20 of the audits inspected, firms performed substantive analytical procedures that did not provide the intended level of assurance because the firms failed to

- develop expectations that were sufficiently precise to identify misstatements;

- investigate significant unexpected differences from expectations;
- evaluate the reliability of the data from which the auditors' expectations were developed;
- establish an amount of difference from the expectation that could be accepted without further investigation; or
- perform procedures to obtain evidence to corroborate management's responses regarding significant unexpected differences with other evidential matter.

— In 48 of the audits inspected, firms failed to perform sufficient procedures to test the relevant assertions for revenue. For example, firms failed to evaluate the effect of specific terms or provisions of significant contractual arrangements related to the recognition of revenue;

- test whether revenue was recorded in the correct period;
- determine whether assets under management used to calculate fees were complete or accurate;
- determine whether the commission rates used to calculate commission revenue were consistent with the underlying agreements; or
- evaluate whether revenue recognition policies were in conformity with generally accepted accounting principles (GAAP).

- *Establishing a Basis for Reliance on Records and Reports*

The PCAOB identified 1 or more deficiencies in 60 of the 106 audits selected for inspection. The following further describes the identified deficiencies:

— In 45 of the audits inspected, firms did not perform sufficient procedures on information produced by service organizations that were used to perform substantive audit procedures or tests of controls. In 32 of these audits, firms used information produced by a service organization, such as records or reports from a clearing broker, but failed to obtain sufficient appropriate audit evidence on such information. Some firms used clearing broker statements as audit evidence and did not perform sufficient substantive audit procedures on the statement. In several instances, firms limited their procedures to agreeing the clearing broker statement to cash receipts or the general ledger.

— In 25 of the audits inspected, firms obtained a service auditor's report, but failed to sufficiently evaluate the service auditor's report or consider whether the service auditor's report provided evidence about the design and operating effectiveness of the controls being relied upon.

For example, there were instances in which firms failed to evaluate

- whether the broker or dealer had designed and implemented the necessary user entity controls identified in the service auditor's report or test those controls;
- whether the scope of the service auditor's report covered the systems or services used by the broker or dealer; and
- whether the service auditor's report covered the period being audited.

— In 32 of the audits inspected, firms failed to perform sufficient procedures to obtain evidence about the accuracy or completeness of records and reports produced by the brokers and dealers that were used in the performance of tests of controls or substantive tests. Examples of these records and reports included trade blotters, account statements, and schedules or spreadsheets prepared by broker or dealer personnel. Such records and reports were used by firms in performing tests of certain accounts or disclosures without testing the accuracy or completeness of the information in those records and reports.

- *Receivables and Payables*

The PCAOB identified 1 or more deficiencies in 13 of the 68 audits in which certain receivables and payables were selected for inspection. The following further describes the identified deficiencies:

— In 8 of the audits inspected, the extent of testing was insufficient for a receivable or payable account balance, including commission receivables and payables to brokers and dealers and clearing organizations. For example, in some instances firms

- did not perform any procedures to test certain assertions of the account balances; or
- did not appropriately design and perform sampling procedures to test the account balances. The firms failed to select a sample that was representative of the relevant population and sufficient to reduce sampling risk to an appropriately low level.

— In 4 of the audits inspected, deficiencies were identified that related to the failure of firms to perform sufficient external confirmation procedures. For example, there were instances in which firms failed to

- appropriately design the confirmation request given that the confirmation procedures were performed as of an interim date and did not take into account the short-term nature of the receivable;

  - direct confirmation requests to an appropriate confirming party;
  - perform alternative procedures on nonresponses; or
  - evaluate whether the confirmation response provided relevant and reliable audit evidence by failing to compare the confirmation to the broker's or dealer's records.

— In 4 of the audits inspected, other deficiencies related to the testing of receivables and payables were identified. In 3 of these audits, firms performed substantive analytical procedures but failed to

  - develop expectations that were sufficiently precise;
  - establish an amount of difference from the expectation that could be accepted without further investigation; or
  - test the interim balance the analytical procedure depended upon in a manner to provide a reasonable basis for extending its conclusions from interim to year-end.

- *Fair Value Accounting Estimates*

The PCAOB identified deficiencies in 17 of the 39 audits in which the auditor's procedures to test securities valuation were selected for inspection. The following further describes the identified deficiencies:

— In 16 of the audits inspected, firms did not perform sufficient procedures to test the valuation of securities. For example, in several audits, firms relied on the fair values provided by the brokers or dealers and failed to undertake, or sufficiently undertake, 1 or more of the required procedures.

— In 2 of the audits inspected, firms failed to identify that the brokers or dealers had applied FASB *Accounting Standards Codification* (ASC) 320, *Investments—Debt and Equity Securities*, and therefore, had inappropriately accounted for investments as securities that were held to maturity or available for sale. In another audit, the firm failed to identify that the broker's or dealer's investments were not accounted for at fair value.

- *Financial Statement Presentation and Disclosures*

The PCAOB identified 1 or more deficiencies in 47 of 106 audits selected for inspection. The following further describes the identified deficiencies:

— In 18 of the audits inspected, firms failed to identify and evaluate the omission of required disclosures pertaining to areas such as related parties and related party transactions, or revenue recognition policies.

— In 25 of the audits inspected, firms failed to identify incomplete disclosures or respond to evidence that was inconsistent with disclosures included in the financial statements. In another 11 audits, firms failed to evaluate the broker's or dealer's classification of fair value measurements of securities owned within the hierarchy required by FASB ASC 820, *Fair Value Measurement*.

— In 11 of the audits inspected, firms failed to evaluate whether the financial statements presented and disclosed the underlying transactions in a manner that complied with GAAP. For example, in some of these audits, firms failed to identify and address that the broker or dealer reported multiple revenue streams as a single line item on the statement of income, which is inconsistent with the financial statement format contained in Form X-17-5 Part II or Part IIA in accordance with SEC Rule 17a-5(d)(2).

- *Auditor's Report*

The PCAOB identified deficiencies in 9 of the 106 audits selected for inspection related to the auditor's report. The following further describes the identified deficiencies:

— In 6 of the 106 audits inspected, the auditor's report on the supporting schedules failed to include 1 or more of the required elements (for example, a statement that the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements).

— In 3 of the 106 audits inspected, the auditor's report was dated prior to the date the broker and dealer asserted their responsibility for the financial statements as evidenced by the date of the broker's and dealer's management representation letter to the firms.

.21 As discussed in the report, observations continue to occur at unacceptably high levels. The PCAOB stated that what is "particularly concerning is an apparent lack of due professional care in the conduct of these audits by some firms, as evidenced by a lack of attention to the requirements of SEC rules and professional standards in planning and performing procedures on some engagements."

.22 The PCAOB stated that it plans to perform inspections of 75 firms covering portions of approximately 115 audit and attestation engagements of brokers and dealers during 2015. The audit and attestation engagements of brokers and dealers selected for inspection in 2015 are required to have been conducted in accordance with PCAOB standards as a result of the amendments to SEC Rule 17a-5.

.23 The interim inspection program was designed to cover a cross-section of audits of SEC-registered broker-dealers. The inspection program will continue until new rules for a permanent program are adopted and become effective. In accordance with the temporary rule regarding the interim inspection program, a report containing results of the inspections performed must be issued annually. As directed by the rule, the report does not name audit firms inspected, unlike the individual inspection reports of public company auditors. However, during an inspection, deficiencies were discussed with the firm. Any deficiencies that were considered to be significant were communicated to the firm in writing.

.24 The interim inspection report states that PCAOB staff is currently working to develop a rule proposal for the PCAOB Board to consider during 2016 to establish a permanent inspection program. In connection with this proposal, the PCAOB will consider whether to exempt any category of registered public accounting firm from inspections or any other aspect of PCAOB oversight. Until a permanent inspection program is in place, audits of issuer and nonissuer broker-dealers will remain subject to inspection under the PCAOB Interim Inspection Program. Additionally, audits of nonissuer broker-dealers will remain subject to peer review under the AICPA Peer Review Standards until such time that the AICPA Peer Review Board votes to exclude them from the scope of the standards.

Audit and Attestation Issues and Developments

Enhancing Audit Quality Initiative

.25 The accounting profession has a history of providing high-quality services that protect the public interest. Among the guiding principles of the accounting profession are due care and competence.

.26 Due care points to a firm's requirement to perform services with high quality. Using a quality control system is one way to help ensure due care. Firms are required to have a system of quality control by Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control* (AICPA, *Professional Standards*, QC sec. 10). The objective of the system of controls is to provide reasonable assurance that the firm and its personnel comply with professional standards, and that applicable legal and regulatory requirements and reports issued by the firm are appropriate in the circumstances. Without the system of quality controls, firms may accept engagements for which they don't have the requisite knowledge or skill, or may not be reasonably assured that its personnel are in compliance with relevant ethical requirements.

.27 Without competence, many risks may arise during the course of an engagement. Individual competence comes from one's education, experience, and willingness to stay current with the constantly changing body of knowledge relevant to the services being performed. Competence at the firm level includes evaluating whether members of the engagement team have the correct education, experience, and judgment. Without competence, insufficient testing may be done, incorrect conclusions may be reached, and ultimately materially incorrect financial statements could be issued.

.28 Besides individual knowledge, competence also involves establishing the limitations of one's capabilities by acknowledging that consultation or referral may be required when a professional engagement exceeds the member's or firm's capabilities. Each member of the engagement team is responsible for ensuring that they have the skills and knowledge to complete the work.

.29 In response to the rapid change and complex challenges facing practitioners, the AICPA began its Enhancing Audit Quality Initiative in May 2014. The goal of the initiative is to improve audit performance by aligning the objectives of all audit related efforts. The initiative involves two phases. Phase 1 is focused on near-term quality improvement, and phase 2 is focused on the current peer review program becoming a practice monitoring process.

.30 This initiative included six components: pre-licensure, standards and ethics, CPA learning and support, peer review, practice monitoring of the future, and enforcement. Pre-licensure focuses on individuals prior to receiving their license through a high school advanced placement course and the CPA exam. The advanced placement course is very close to being approved and implemented by the College Board. The CPA exam is being examined for content, testing methodology, and technology. An exposure draft is expected to be released in the fall of 2015 related to the exam. The second component, standards and ethics, focuses on quality control implementation support, implementation of the clarified standards, the auditor's reporting model, and the ethics code codification. Webcasts are currently available to assist practitioners on implementing the quality control standards and the ethics code codification. Workshops and additional virtual group study courses are also being developed. Peer review information is being collected and experts are completing a root cause analysis to further help with the development of resources for practitioners.

.31 The third component, CPA learning and support, addresses the need to understand the competencies required by CPAs and how these competencies are linked to quality. The AICPA's competence framework is currently in development and will continue to be rolled out as portions become available. Also providing support for practitioners is the Center for Plain English Accounting. The Center for Plain English Accounting acts as national accounting and auditing center for firms. They provide written responses to written technical inquiries, monthly "how-to" reports, webcasts, alerts, and content for firm newsletters.

.32 The fourth component, peer review, is focused on improving peer reviewer quality and strengthening firm quality. Enhanced oversight and increased reviewer qualifications should help to ensure that reviewers are better able to complete high-quality reviews. Additional focus on high-risk industries and areas, and more oversight and root cause analysis, should strengthen the reviews as well. A new focus will also be placed on ensuring that there is a complete population of engagements for review selection.

.33 The fifth component, future of practice monitoring, and sixth component, enforcement, are further down the road in the initiative. A pilot program is expected in 2016 for practice monitoring, and peer review leaders are collaborating with the National Association of State Boards of Accountancy and state boards of accountancy on enforcement.

.34 More information about the Enhancing Audit Quality Initiative can be found at http://community.aicpa.org/enhancing_audit_quality_initiative/default.aspx.

Auditing Standards Board

Comfort Letters

.35 In July 2014, the ASB issued Statement on Auditing Standards (SAS) No. 129, *Amendment to Statement on Auditing Standards No. 122 Section 920*, Letters for Underwriters and Certain Other Requesting Parties, *as Amended* (AICPA, *Professional Standards*, AU-C sec. 920), to address some unintended issues that arose from the ASB's efforts to clarify the guidance that previously existed in AU section 634, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards).

.36 AU-C section 920 addresses the auditor's responsibilities when engaged to issue comfort letters to requesting parties in connection with a nonissuer entity's financial statements included in a registration statement or other securities offerings. The primary purpose of this SAS is to make the following minor amendments to clarify some of the provisions contained in AU-C section 920:

- Not only is the auditor not required to accept an engagement to issue a comfort letter in connection with the financial statements included in a securities offering, but the auditor is also not required to provide comfort on every matter requested when accepting an engagement to issue a comfort letter.
- Situations may exist in which one or more component auditors' reports are included in the securities offering. When comfort letters are issued to underwriters by those component auditors, the auditor of the group financial statements should read those comfort letters. The auditor should state in the comfort letter that the procedures related to those components consist solely of reading the component auditors' comfort letters.
- If the auditor states in the comfort letter that the auditor has issued a review report on the unaudited interim financial information, the auditor should attach the review report to the letter unless the review report is already included in the securities offering. The redrafting of AU section 634 stated the review report should be included if the auditor performed a review. The proposed change clarifies that the review report is only required if a review report was issued.

.37 This SAS became effective for comfort letters issued on or after December 15, 2014.

Auditing Standards Board Interpretations

.38 Auditing guidance included in interpretations is recognized as an interpretive publication as defined in AU-C section 200. Interpretive publications are recommendations on the application of GAAS in specific circumstances, including engagements for entities in specialized industries.

.39 Although interpretive publications are not auditing standards, AU-C section 200 requires the auditor to consider applicable interpretive publications in planning and performing the audit because interpretive publications are relevant to the proper application of GAAS in specific circumstances. If the auditor does not apply the auditing guidance in an applicable interpretive publication, the auditor should document how the requirements of GAAS were complied with in the circumstances addressed by such auditing guidance.

Going Concern Interpretations

.40 In January 2015, the ASB issued four interpretations on AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*). These interpretations defined terms used in AU-C section 570 and offered additional guidance.

.41 Interpretation No. 1, "Definition of Substantial Doubt About an Entity's Ability to Continue as a Going Concern," of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .01–.02), was needed because AU-C section 570 refers to the term *substantial doubt about an entity's ability to continue as a going concern* but does not define it. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), requires the auditor to form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. As a result, when the applicable financial reporting framework includes a definition of substantial doubt about an entity's ability to continue as a going concern, that definition would be used by the auditor when applying AU-C section 570.

.42 Interpretation No. 2, "Definition of Reasonable Period of Time," of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .03–.05), provides additional guidance because AU-C section 570 defines *reasonable period of time* as "a period of time not to exceed one year beyond the date of the financial statements being audited." How should an auditor apply this definition when the applicable financial reporting framework requires management to evaluate whether there are conditions and events that raise substantial doubt for a period of time greater than one year from the date of the financial statements? The auditor's assessment of management's going concern evaluation would be for the same period of time as required by the applicable financial reporting framework in forming an opinion on whether the financial statements are presented fairly, in all material respects, and determining whether an emphasis-of-matter paragraph is required.

.43 Interpretation No. 3, "Interim Financial Information," of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .06–.08), provides additional guidance on what the auditor's responsibilities are when the applicable financial reporting framework contains explicit requirements concerning management's responsibilities related to evaluating the entity's ability to continue as a going concern for interim financial information. AU-C section 930, *Interim Information* (AICPA, *Professional Standards*), states the auditor requirements if certain conditions are met (for example, substantial doubt).

.44 The consideration of the adequacy of management's disclosures about the entity's ability to continue as a going concern in the interim financial information includes a consideration of whether the entity's financial statements are presented in accordance with the applicable financial reporting framework. As a result, when the applicable financial reporting framework includes explicit requirements for management to evaluate the entity's ability to continue as a going concern in preparing interim financial information, the auditor is required to perform interim review procedures related to management's evaluation of the entity's ability to continue as a going concern and the adequacy of the related disclosures in the interim financial information.

.45 Interpretation No. 4, "Consideration of Financial Statements Effects," of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .09–.10), provides guidance on how an auditor applies AU-C section 570 guidance when the applicable financial reporting framework contains disclosure requirements related to management's going concern evaluation.

Accounting and Review Services Committee

Statements on Standards for Accounting and Review Services Clarity Project

.46 In October 2014, the Accounting and Review Services Committee (ARSC) issued Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*). Along with redrafting the SSARS literature in the clarity format, SSARS No. 21 significantly affects the literature for accountants who prepare financial statements. This standard is effective for reviews, compilations, and engagements to prepare financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.

.47 SSARS No. 21 supersedes all extant AR sections in AICPA *Professional Standards*, with the exception of AR section 120, *Compilation of Pro-Forma Financial Information* (AICPA, *Professional Standards*). AR section 120 will be superseded by an additional clarity SSARS at a future date.

.48 SSARS No. 21 is structured as follows:

- Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*, provides a framework for SSARS engagements.
- Section 70, *Preparation of Financial Statements*, provides requirements and guidance when an accountant is engaged to prepare financial statements for an entity but has not been engaged to perform a compilation, review, or audit with respect to those financial statements.
- Section 80, *Compilation Engagements*, provides requirements and guidance to an accountant when engaged to perform a compilation engagement.
- Section 90, *Review of Financial Statements*, provides requirements and guidance to an accountant when engaged to review financial statements.

.49 The sections of SSARS No. 21 are codified in *Professional Standards* as AR-C sections using the same section numbers as found in SSARS No. 21.

.50 Section 70 of SSARS No. 21 applies when the accountant is engaged to prepare financial statements but is not engaged to perform an audit, review, or a compilation on those financial statements. Section Nos. 70 and 80 of SSARS No. 21 provide a bright line between accounting (preparation) and reporting (compilation) services. The accountant will not have to be concerned about whether the financial statements are being used internally or by third parties (including boards of directors).

.51 You can find more information about the ARSC Clarity Project in the AICPA Alert *Developments in Preparation, Compilation, and Review*

Engagements—2015/16. See "Resource Central" for information on obtaining that alert.

The PCAOB

Matters Related to Auditing Revenue in an Audit of Financial Statements

.52 In September 2014, the PCAOB issued Staff Audit Practice Alert No. 12, *Matters Related to Auditing Revenue in an Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance sec. 400.12), to highlight certain requirements of PCAOB standards relating to the auditing of revenue.

.53 This practice alert discussed the following:

- Testing the recognition of revenue from contractual arrangements
- Evaluating the presentation of revenue—gross versus net revenue
- Evaluating whether the financial statements include the required disclosures regarding revenue
- Responding to risks of material misstatement due to fraud associated with revenue
- Testing and evaluating controls over revenue
- Performing substantive analytical procedures to test revenue
- Testing revenue in companies with multiple locations

.54 The matters discussed in Staff Audit Practice Alert No. 12 are relevant to every auditor in planning and performing their audit procedures over revenue.

The Auditor's Consideration of a Company's Ability to Continue as a Going Concern

.55 In September 2014, the PCAOB issued Staff Audit Practice Alert No. 13, *Matters Related to the Auditor's Consideration of a Company's Ability to Continue as a Going Concern* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance sec. 400.13), to discuss the professional standards applicable to the auditor's evaluation of a company's ability to continue as a going concern.

.56 AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *PCAOB Standards and Related Rules*, Interim Standards), establishes requirements for the auditor's evaluation of a company's ability to continue as a going concern. Among other things, AU section 341 requires the auditor to modify the auditor's report by including an explanatory paragraph when substantial doubt exists about the company's ability to continue as a going concern.

.57 On August 27, 2014, FASB issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, to communicate amendments to FASB ASC 205-40. The ASC amendments establish new requirements for management to evaluate a company's ability to continue as a going concern and to provide certain related disclosures for financial statements prepared under GAAP.

.58 This staff practice alert reminds auditors of the requirements when evaluating a company's ability to continue as a going concern.

.59 Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards. Staff Audit Practice Alerts do not establish rules of the PCAOB, and auditors should determine whether and how to respond based on the specific facts they encounter.

Common Peer Review Findings

.60 In order to be admitted to or retain their membership in the AICPA, members who are engaged in the practice of public accounting in the United States or its territories are required to be practicing as partners or employees of firms enrolled in an approved practice-monitoring program. If practicing in firms that are not eligible to enroll, members must enroll in an approved practice-monitoring program if the services performed by such a firm or individual are within the scope of the AICPA's practice-monitoring standards, and the firm or individual issues reports purporting to be in accordance with AICPA professional standards.

.61 Firms have peer reviews because of the public interest in the quality of the accounting, auditing, and attestation services provided by public accounting firms. In addition, firms indicate that peer review contributes to the quality and effectiveness of their practices. Furthermore, most state boards of accountancy require their licensees to undergo peer review, or compliance assurance, to practice in their state. Other regulators require peer review in order to perform engagements and issue reports under their standards.

.62 Firms are encouraged to remain current with changes in the standards because the standards are the basis for peer reviews. Training and frequently asked questions about the AICPA Peer Review program can be found at www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx.

.63 The most common findings in recent peer reviews as released by the peer review division of the AICPA are as follows:

- Failure to date the auditor's report appropriately, such as dating the report significantly earlier than the date of the review of the working papers and the release date.
  - — Paragraph .41 of AU-C section 700 state that the auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that
    - the audit documentation has been reviewed;
    - all statements that the financial statements comprise, including the related notes, have been prepared; and
    - management has asserted that they have taken responsibility for those financial statements.
- Failure to adequately document sampling methodology.
  - — AU-C section 530, *Audit Sampling* (AICPA, *Professional Standards*), provides guidance as to how to perform

sampling during an audit engagement. However, if the sampling methodology is not documented, then the reviewer may not be able to evaluate if the procedure provided appropriate audit evidence.

- Failure to include audit documentation that contains sufficient competent evidence to support the firm's opinion on the financial statements.
  - AU-C section 230, *Audit Documentation* (AICPA, *Professional Standards*), addresses the auditor's responsibility to prepare audit documentation for an audit of financial statements. The specific documentation requirements of other AU-C sections do not limit the application of this section. Law, regulation, or other standards may establish additional documentation requirements.
- Auditor's report not updated for clarified auditing standards.
  - The clarified auditing standards became effective for audits of financial statements for periods ending on or after December 15, 2012. The exhibit "Illustrations of Auditors' Reports on Financial Statements" in AU-C section 700 provides examples of clarified auditor's reports.
- Failure to appropriately address fraud considerations.
  - AU-C section 240, *Considerations of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*), addresses the auditor's responsibilities relating to fraud in an audit of financial statements. It expands on how AU-C section 315 and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained* (AICPA, *Professional Standards*), are to be applied regarding risks of material misstatement due to fraud.

Developments in Peer Review

.64 In May 2015, the Peer Review Board approved revisions to the initial and ongoing training requirements for team and review captains, as well as for reviewers of certain must-select engagements. More information may be found in the May 2015 Peer Review Update at www.aicpa.org/InterestAreas/PeerReview/NewsAndPublications/DownloadableDocuments/PRUpdate0515.pdf.

.65 As part of the Enhancing Quality Initiative, the peer review process will undergo some changes and improvements. A new focus will be placed on improving reviewer quality, strengthening firm quality, and confirming population completeness. To strengthen firm quality, the AICPA has established several resources to assist firms. A new dispute resolution hotline has been set up and enhanced oversight procedures will be implemented. Highly qualified industry experts will review select engagements after the peer reviewer and enhanced training is being offered to reviewers. In addition, peer reviewers will focus on a firm's quality control policies and procedures.

.66 Population completeness is also becoming a focus for peer reviews. A firm's failure to report all of their engagements eligible for peer review is considered noncooperation. These types of errors or omissions can result in a recall of peer review reports, potential termination of a firm's enrollment in the peer review program, and referral to the AICPA Professional Ethics Division.

Revenue Recognition

.67 On May 28, 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the IASB issued International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. FASB ASU No. 2014-09 will amend the FASB ASC by creating Topic 606, *Revenue from Contracts with Customers*, and Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. The guidance in FASB ASU No. 2014-09 provides what FASB describes as a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, as well as guidance within the 900 series of industry-specific topics.

.68 As part of FASB's and the IASB's efforts to converge U.S. GAAP and IFRS, the standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principles-based approach for revenue recognition. The intent is to avoid inconsistencies of accounting treatment across different geographies and industries. In addition to improving comparability of revenue recognition practices, the new guidance provides more useful information to financial statement users through enhanced disclosure requirements. FASB and the IASB have essentially achieved convergence with these standards, with some minor differences related to the collectability threshold, interim disclosure requirements, early application and effective date, impairment loss reversal, and nonpublic entity requirements.

.69 The standard applies to any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance or lease contracts).

.70 The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services.

.71 To apply the proposed revenue recognition standard, FASB ASU No. 2014-09 states that an entity should follow these five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

.72 Under the new standard, revenue is recognized when a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). See the following discussion of the five steps involved when recognizing revenue under the new guidance.

.73 *Step 1: Identify the Contract(s) With a Customer*. FASB ASU No. 2014-09 defines a contract as "an agreement between two or more parties that creates enforceable rights and obligations." The new standard affects contracts with a customer that meets the following criteria:

- Approval (in writing, orally, or in accordance with other customary business practices) and commitment of the parties
- Identification of the rights of the parties
- Identification of the payment terms
- A contract with commercial substance
- Probability that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

.74 A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (parties).

.75 *Step 2: Identify the Performance Obligations in the Contract*. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

.76 At contract inception, an entity should assess the goods or services promised in a contract with a customer and should identify as a performance obligation (possibly multiple performance obligations) each promise to transfer to the customer

- a good or service (or bundle of goods or services) that is distinct; or
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

.77 A good or service that is not distinct should be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

.78 *Step 3: Determine the Transaction Price*. The transaction price is the amount of consideration (fixed or variable) the entity expects to receive in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. To determine the transaction price, an entity should consider the effects of

- variable consideration;
- constraining estimates of variable consideration;
- the existence of a significant financing component;
- noncash considerations; and
- consideration payable to the customer.

.79 If the consideration promised in a contract includes a variable amount, then an entity should estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. An entity would then include in the transaction price some or all of an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

.80 An entity should consider the terms of the contract and its customary business practices to determine the transaction price.

.81 *Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract*. The transaction price is allocated to separate performance obligations in proportion to the standalone selling price of the promised goods or services. If a standalone selling price is not directly observable, then an entity should estimate it. Reallocation of the transaction price for changes in the standalone selling price is not permitted. When estimating the standalone selling price, entities can use various methods, including the adjusted market assessment approach, expected cost plus a margin approach, and residual approach (only if the selling price is highly variable and uncertain).

.82 Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to one of the performance obligations in a contract. Guidance under the new standard specifies when an entity should allocate the discount or variable consideration to one (or some) performance obligation(s) rather than to all of the performance obligations in the contract.

.83 *Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation*. The amount of revenue recognized when transferring the promised good or service to a customer is equal to the amount allocated to the satisfied performance obligation, which may be satisfied at a point in time (goods) or over time (services). Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control also includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

.84 When performance obligations are satisfied over time, the entity should select an appropriate method for measuring its progress toward complete satisfaction of that performance obligation. The standard discusses methods of measuring progress, including input and output methods, and how to determine which method is appropriate.

Additional Guidance Under the New Standard

.85 In addition to the five-step process for recognizing revenue, FASB ASU No. 2014-09 also addresses the following areas:

- Accounting for incremental costs of obtaining a contract, as well as costs incurred to fulfill a contract
- Licenses
- Warranties

.86 The new guidance enhances disclosure requirements to include more information about specific revenue contracts entered into by the entity, including performance obligations and the transaction price.

Effective Date

.87 The guidance in the new standard was originally effective for annual reporting periods of public entities beginning on or after December 15, 2016, including interim periods within that reporting period. Early application was not permitted for public entities.[1]

.88 For all other entities, the amendments in the new guidance were originally effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

.89 To allow entities additional time to implement systems, gather data, and resolve implementation questions, FASB voted to defer the effective date of ASU No. 2014-09 for one year on July 9, 2015, resulting in the issuance of FASB ASU No. 2015-14. Public business entities, certain not-for-profit entities, and certain employee benefit plans would apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

.90 All other entities would apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Application is permitted early only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period, or an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance in ASU No. 2014-09.

.91 Upon implementation of the new standard, consistency of revenue recognition principles across geography and industry will be enhanced and financial statement users will be provided better insight through improved disclosure requirements. To provide CPAs with guidance during this time of transition, a Joint Transition Resource Group for Revenue Recognition (TRG) has been established by FASB and the IASB to promote effective implementation and transition to the converged standard. Refer to each board's website for more information on this group and the status of their efforts.

Latest Developments

.92 Based on discussions held thus far on individual areas affected by the new standard, the TRG has informed FASB and the IASB that technical corrections are needed to further articulate the guidance in the standard. As a result, in May 2015, FASB issued a proposed ASU, *Revenue from Contracts with Customers (Topic 606)—Identifying Performance Obligations and Licensing*,

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[1] A public entity is an entity that is any one of the following:

- A public business entity
- A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
- An employee benefit plan that files or furnishes financial statements to the SEC

to clarify the guidance on accounting for licenses of intellectual property and identifying performance obligations. The comment deadline was June 30, 2015.

.93 FASB is also expected to release a proposed ASU on practical expedients, and has added a research project to its agenda to further discuss principal versus agent (reporting revenue gross versus net). Refer to the FASB and IASB websites for more information on the status of their efforts.

Recognition and Other Considerations for Auditors and Entities

.94 Revenue recognition is presumed to be a fraud risk area and thus a significant risk area, as stated in paragraphs .26–.27 of AU-C section 240. The frequent association between revenue recognition and fraud has been well established. In the 2014 Association of Certified Fraud Examiners fraud survey, 61 percent of reported financial statement fraud involved some aspect of revenue recognition.

.95 An entity's transition to FASB ASU No. 2014-09 will often require the use of historical data in order to make the necessary conversions. Despite the significant lead time available before adoption is mandatory for entities to retain certain data and business process information for the conversion, some prior data may not be readily available in a form that supports the conversion. Data that is inaccurate or incomplete may require extra effort to ensure the resulting conversion is acceptable under GAAP. In some cases the lack of necessary information could lead to a conclusion that the financial data is un-auditable. In the conversion process, assumptions and estimates are likely to be necessary.

.96 Entities are advised to keep records of

- the source of all data used in the conversion process.
- tests of that data to ensure completeness, accuracy, and so on.
- the process used to convert prior revenue data, including any assumptions used in the conversion process and support for the assumptions applied to the data. This would include consideration of any differences between the periods of time supporting the assumptions and the historical periods to which they are applied. For example, current products may differ in nature from prior products, revenue recognition policies may have changed over time, and product mixes may differ over time.

Risk Assessment

.97 A preliminary consideration of the risks associated with the implementation of the new standard may be helpful in anticipating and minimizing issues that may be identified in the conversion and forward accounting process. Additional lead time in anticipating and addressing these issues may create a smoother and more efficient implementation for entities and auditors.

.98 Certain principles in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 revised framework relate specifically to an entity's recognition and response to risks of financial reporting. For many entities the new revenue recognition standard will pose risks of fairly presenting current and historical revenues.

.99 Principle 6, Specifies Relevant Objectives, considers internal and external reporting objectives such as GAAP and materiality. Principle 7, Identifies and Analyzes Risks, considers the risks associated with financial reporting and responses to those risks. Principle 9, Identifies and Analyzes Significant Change, may also be particularly relevant to entities when implementing the new revenue recognition standard.

Estimates and Fair Values

.100 AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (AICPA, *Professional Standards*), makes frequent reference to estimates and fair valuations when accounting for revenue. Estimates and fair valuations may also be relevant to restating past revenues or determining present revenues.

.101 At present, the area of estimates and fair values is a commonly cited area for audit quality deficiencies in peer reviews and inspections. In general, the comments point out the need for more evidence to support critical estimates, valuations, and assumptions. Skepticism regarding management bias in making the estimations or applying assumptions (in a single estimate or in combination with other assumptions and estimates) is also a consideration.

.102 As an important financial statement area for most entities, more robust procedures of auditing estimates and fair values and documentation are likely to be expected.

Independence

.103 Auditors should also be mindful of the "Scope and Applicability of Nonattest Services" interpretation (AICPA, *Professional Standards*, ET sec. 1.295.010) that defines financial statement presentations, cash-to-accrual conversions, and performing reconciliations as nonattest services, that are assessed alone and in combination with other services when assessing auditor independence.

.104 Many clients may look to their auditors to assist them in understanding and complying with the new revenue recognition standard. Being mindful of the need to maintain independence when having conversations with management regarding the new standard will avoid issues that could be troublesome for the auditor and the audited entity. However, both management and the auditor can benefit from understanding the needs of the other party as early in the transition process as possible so that the entity's efforts create an efficient, auditable result. Consultation is beneficial within the independence constraints.

.105 The ethics rules indicate the need to assess the knowledge, skills, and experience of management that is accepting responsibility for the work when concluding on whether the auditor performing nonattest services can be viewed as independent.

Other Accounting Issues and Developments

.106 Because the financial reporting standards are in a constant state of change, it may be challenging to keep up with all the new standards as they are issued. Auditors and preparers need to be aware of the following FASB ASUs that have been recently issued and become effective in the near term.

Derivatives and Hedging

.107 In November 2014, FASB issued ASU No. 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)*. Shares that include embedded derivative features are referred to as hybrid financial instruments. An entity that issues or invests in a hybrid financial instrument is required to separate an embedded derivative feature from the host contract (for example, an underlying share) and account for the feature as a derivative according to FASB ASC 815-10 on derivatives and hedging if certain criteria are met. One such criterion for separation is that the economic characteristics and risks of the embedded derivative feature are not clearly and closely related to the economic characteristics and risks of the host contract.

.108 In the case of derivatives embedded in a hybrid financial instrument that is issued in the form of a share, that criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. If the host contract is akin to equity, then equity-like features (for example, a conversion option) are considered clearly and closely related to the host contract and, thus, would not be separated from the host contract. If the host contract is akin to debt, then equity-like features are not considered clearly and closely related to the host contract. In the latter case, an entity may be required to separate the equity-like embedded derivative feature from the debt host contract if certain other criteria in FASB ASC 815-15 are met. Similarly, debt-like embedded derivative features may require separate accounting from an equity-like host contract.

.109 The amendments in this ASU do not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. That is, an entity will continue to evaluate whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to those of the host contract, among other relevant criteria. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features—including the embedded derivative feature being evaluated for bifurcation—in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument.

.110 In addition, the amendments in ASU No. 2014-16 clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. Specifically, the assessment of the substance of the relevant terms and features should incorporate a consideration of (*a*) the characteristics of the terms and features themselves (for example, contingent versus non-contingent, in-the-money versus out-of-the-money), (*b*) the circumstances under which the hybrid financial instrument was issued or acquired (for example, issuer-specific characteristics, such as whether the issuer is thinly capitalized or profitable and well-capitalized), and (*c*) the potential outcomes of the hybrid financial instrument (for example, the instrument may be settled by the issuer issuing a fixed number of shares, the instrument may be settled by the issuer transferring a specified amount of cash, or the instrument may remain legal-form equity), as well as the likelihood of those potential outcomes.

.111 The effects of initially adopting the amendments in this ASU should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods.

.112 The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments shall be reflected as of the beginning of the fiscal year that includes that interim period.

Pushdown Accounting

.113 In November 2014, FASB issued ASU No. 2014-17, *Business Combination (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)*, to provide guidance on whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements.

.114 The amendments in this ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity.

.115 An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with FASB ASC 250, *Accounting Changes and Error Corrections*. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable.

.116 If an acquired entity elects the option to apply pushdown accounting in its separate financial statements, it should disclose information in the current reporting period that enables users of financial statements to evaluate the effect of pushdown accounting.

.117 The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.

Intangible Assets in a Business Combination

.118 In December 2014, FASB issued ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a Consensus of the Private Company Council)*, in response to feedback from some private company stakeholders indicating that the benefits of the current accounting for identifiable intangible assets acquired in a business combination may not justify the related costs. By providing an accounting alternative, this ASU reduces the cost and complexity associated with the measurement of certain identifiable intangible assets without significantly diminishing decision-useful information to users of private company financial statements.

.119 For entities electing this alternative, the amendments generally will result in those entities separately recognizing fewer intangible assets in a business combination when compared to entities that do not elect or are not eligible for this alternative.

.120 Currently, an acquirer recognizes most assets acquired and liabilities assumed in a business combination at their acquisition-date fair values, including all intangible assets that are identifiable. An intangible asset is identifiable if it meets either of the following criteria:

- It arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
- It is separable, that is, capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset, or liability, regardless of whether the entity intends to do so.

.121 The accounting alternative in this ASU, when elected, will continue to provide decision-useful information to the users of private company financial statements while providing a reduction in the cost and complexity associated with the measurement of certain identifiable intangible assets. Intangible assets other than customer-related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and noncompetition agreements will continue to be recognized. Qualitative disclosures currently required under GAAP will continue to provide information without the undue cost and complexity associated with measuring the fair value of intangible assets not recognized under this alternative.

.122 The decision to adopt the accounting alternative in this ASU must be made upon the occurrence of the first transaction within the scope of this accounting alternative in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first in-scope transaction. If the first in-scope transaction occurs in the first fiscal year beginning after December 15, 2015, the elective adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter.

If the first in-scope transaction occurs in fiscal years beginning after December 15, 2016, the elective adoption will be effective in the interim period that includes the date of that first in-scope transaction and subsequent interim and annual periods thereafter. Early application is permitted for interim and annual financial statements that have not yet been made available for issuance.

Extraordinary and Unusual Items

.123 In January 2015, FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*, as part of its initiative to reduce complexity in accounting standards.

.124 This ASU eliminates from GAAP the concept of extraordinary items. FASB ASC 225-20 required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. FASB ASC 225-20-45-2 contains the following criteria that must both be met for extraordinary classification:

1. *Unusual nature*. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
2. *Infrequency of occurrence*. The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

.125 If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and present or disclose earnings-per-share data applicable to the extraordinary item.

.126 FASB heard from stakeholders that the concept of extraordinary items causes uncertainty because it is unclear when an item should be considered both unusual and infrequent. Additionally, some stakeholders said that although users find information about unusual or infrequent events and transactions useful, they do not find the extraordinary item classification and presentation necessary to identify those events and transactions. Other stakeholders noted that it is extremely rare in current practice for a transaction or event to meet the requirements to be presented as an extraordinary item.

.127 Eliminating the concept of extraordinary items will save time and reduce costs for preparers because they will not have to assess whether a particular event or transaction event is extraordinary (even if they ultimately would conclude it is not). This also alleviates uncertainty for preparers, auditors, and regulators because auditors and regulators no longer will need to evaluate whether a preparer treated an unusual or infrequent item appropriately.

.128 FASB concluded that the amendments in this ASU will not result in a loss of information because although the amendments will eliminate the requirements in FASB ASC 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring.

.129 The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities.

.130 For an entity that prospectively applies the guidance, the only required transition disclosure will be to disclose, if applicable, the nature and the amount of an item included in income from continuing operations after adoption that adjusts an extraordinary item previously classified and presented before the date of adoption. An entity retrospectively applying the guidance should provide the disclosures in paragraphs .01–.02 of FASB ASC 250-10-50.

Consolidation

.131 In February 2015, FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, in response to stakeholders' concerns about the current accounting for consolidation of certain legal entities. Stakeholders expressed concerns that current GAAP might require a reporting entity to consolidate another legal entity in situations in which the reporting entity's contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity's voting rights, or the reporting entity is not exposed to a majority of the legal entity's economic benefits or obligations. Financial statement users asserted that in situations in which consolidation is ultimately required, deconsolidated financial statements are necessary to better analyze the reporting entity's economic and operational results.

.132 The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments

- modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities.
- eliminate the presumption that a general partner should consolidate a limited partnership.
- affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships.
- provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

.133 The amendments in this ASU affect the following areas:

- Limited partnerships and similar legal entities
- Evaluating fees paid to a decision maker or a service provider as a variable interest
- The effect of fee arrangements on the primary beneficiary determination
- The effect of related parties on the primary beneficiary determination
- Certain investment funds

Limited Partnerships and Similar Legal Entities

.134 The amendments in this ASU have the following three main provisions that affect limited partnerships and similar legal entities:

1. There is an additional requirement that limited partnerships and similar legal entities must meet to qualify as voting interest entities. A limited partnership must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to meet this requirement.
2. The specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership.
3. For limited partnerships and similar legal entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights.

Evaluating Fees Paid to a Decision Maker or a Service Provider as a Variable Interest

.135 A reporting entity must determine whether it has a variable interest in the entity being evaluated for consolidation. Current GAAP provides six criteria that must be evaluated to assess whether fees paid by a legal entity to a decision maker or a service provider represent a variable interest in the legal entity.

.136 If a reporting entity concludes that fees represent a variable interest in a VIE, then the entity must evaluate whether its variable interest or interests represent a controlling financial interest in the VIE. A variable interest that is a controlling financial interest in a VIE results in consolidation of the legal entity.

.137 The amendments in FASB ASU No. 2015-02 eliminate three of the six conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest.

The Effect of Fee Arrangements on the Primary Beneficiary Determination

.138 Under both current GAAP requirements and the amendments in this ASU, a decision maker is determined to be the primary beneficiary of a VIE if it satisfies both the power and the economics criteria. The primary beneficiary consolidates a VIE because it has a controlling financial interest.

.139 Under the requirements in current GAAP, if a fee arrangement paid to a decision maker, such as an asset management fee, is determined to be a variable interest in a VIE, the decision maker must include the fee arrangement in its primary beneficiary determination and could consolidate the VIE on the basis of power (decision-making authority) and economics (the fee arrangement).

.140 However, the amendments in this ASU specify that some fees paid to a decision maker are excluded from the evaluation of the economics criterion if the fees are both customary and commensurate with the level of effort required for the services provided. Those amendments make it less likely for a decision maker to meet the economics criterion solely on the basis of a fee arrangement.

The Effect of Related Parties on the Primary Beneficiary Determination

.141 In instances in which no single party has a controlling financial interest in a VIE, current GAAP requires interests held by a reporting entity's related parties to be treated as though they belong to the reporting entity when evaluating whether a related party group has the characteristics of a primary beneficiary.

.142 The amendments in this ASU reduce the application of the related party guidance for VIEs on the basis of the following three changes:

1. For single decision makers, related party relationships must be considered indirectly on a proportionate basis, rather than in their entirety. Except in the following two instances, the consolidation analysis would end after this indirect assessment.
2. After the preceding assessment is performed, related party relationships should be considered in their entirety for entities that are under common control only if that common control group has the characteristics of a primary beneficiary. That is, the common control group collectively has a controlling financial interest.
3. If the second assessment is not applicable, but substantially all of the activities of the VIE are conducted on behalf of a single variable interest holder (excluding the decision maker) in a related party group that has the characteristics of a primary beneficiary, that single variable interest holder must consolidate the VIE as the primary beneficiary.

.143 This ASU does not amend the related party guidance for situations in which power is shared between two or more entities that hold variable interests in a VIE.

Certain Investment Funds

.144 The amendments in FASB ASU No. 2015-02 rescind the indefinite deferral of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, included in FASB ASU No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds.* However, the amendments in this ASU provide a scope exception from FASB ASC 810, *Consolidation*, for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

.145 The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

.146 A reporting entity may apply the amendments in this ASU using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively.

Debt Issuance Costs

.147 In April 2015, FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as part of its initiative to reduce complexity in accounting standards.

.148 FASB received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in IFRS, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. FASB Concepts Statement No. 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit.

.149 To simplify presentation of debt issuance costs, the amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update.

.150 For public business entities, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

.151 For all other entities, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.

.152 Early adoption of the amendments in this ASU is permitted for financial statements that have not been previously issued.

.153 An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability).

Retirement Benefits

.154 In April 2015, FASB issued ASU No. 2015-04, *Compensation–Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*, as part of its initiative to reduce complexity in accounting standards.

.155 A reporting entity with a fiscal year-end that does not coincide with a month-end may incur more costs than other entities when measuring the fair value of plan assets of a defined benefit pension or other postretirement benefit plan. This is because information about the fair value of plan assets obtained from a third-party service provider typically is reported as of the month-end. That information is adjusted to reflect the fair value of plan assets as of the fiscal year-end.

.156 For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this ASU provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan.

.157 If a contribution or significant event (such as a plan amendment, settlement, or curtailment that calls for a re-measurement in accordance with existing requirements) occurs between the month-end date used to measure defined benefit plan assets and obligations and an entity's fiscal year-end, the entity should adjust the measurement of defined benefit plan assets and obligations to reflect the effects of those contributions or significant events. However, an entity should not adjust the measurement of defined benefit plan assets and obligations for other events that occur between the month-end measurement and the entity's fiscal year-end that are not caused by the entity (for example, changes in market prices or interest rates).

.158 For an entity that has a significant event in an interim period that calls for a re-measurement of defined benefit plan assets and obligations (for example, a partial settlement), the amendments in this update also provide a practical expedient that permits the entity to re-measure defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event.

.159 The month-end remeasurement of defined benefit plan assets and obligations that is closest to the date of the significant event should be adjusted for any effects of the significant event that may or may not be captured in the month-end measurement (for example, if the closest month-end is before the date of a partial settlement, then the measurement of plan assets may include assets that are no longer part of the plan). However, an entity should not adjust the measurement of defined benefit plan assets and obligations for other events that occur between the month-end measurement and the date of the significant event that are not caused by the entity (for example, changes in market prices or interest rates).

.160 If an entity applies the practical expedient and a contribution is made between the month-end date used to measure defined benefit plan assets and obligations and the entity's fiscal year-end, the entity should not adjust the fair value of each class of plan assets for the effects of the contribution. Instead, the entity should disclose the amount of the contribution to permit reconciliation of the total fair value of all the classes of plan assets in the fair value hierarchy to the ending balance of the fair value of plan assets.

.161 An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this update.

.162 Employee benefit plans are not within the scope of the amendments in FASB ASU No. 2015-04.

.163 The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early application is permitted. The amendments in this ASU should be applied prospectively.

Fees Paid in a Cloud Computing Arrangement

.164 In April 2015, FASB issued ASU No. 2015-05, *Intangibles–Goodwill and Other–Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, as part of its initiative to reduce complexity in accounting standards.

.165 Existing GAAP does not include explicit guidance about a customer's accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. FASB heard from stakeholders that the absence of explicit guidance resulted in some diversity in practice as well as unnecessary costs and complexity for some stakeholders to evaluate the accounting for those fees.

.166 FASB decided to add guidance to FASB ASC 350-40 that will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The guidance already exists in paragraphs 121–123 of FASB ASC 985-605-55, but it is included in a FASB ASC subtopic applied by cloud service providers to determine whether an arrangement includes the sale or license of software.

.167 The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. In addition, the guidance in this ASU supersedes FASB ASC 350-40-25-16. Consequently, all software licenses within the scope of FASB ASC 350-40 will be accounted for consistent with other licenses of intangible assets.

.168 For public business entities, FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities.

.169 An entity can elect to adopt the amendments either (*a*) prospectively to all arrangements entered into or materially modified after the effective date or (*b*) retrospectively. For prospective transition, the only disclosure requirements at transition are the nature of and reason for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change. For retrospective transition, the disclosure requirements at transition include the requirements for prospective transition and quantitative information about the effects of the accounting change.

Earnings Per Share

.170 In April 2015, FASB issued ASU No. 2015-06, *Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (a consensus of the FASB Emerging Issues Task Force)*. Some reporting entities calculate previously reported earnings per unit by allocating the earnings (losses) of the transferred business that occurred in periods before the date of the dropdown transaction to the general partner, limited partners, and incentive distribution rights holders on a hypothetical basis and treat their rights to those earnings (losses) in a manner that is consistent with their contractual rights immediately after the dropdown transaction has occurred. Other reporting entities allocate the earnings (losses) of the transferred business that occurred in periods before the date of the dropdown transaction entirely to the general partner and do not adjust previously reported earnings per unit of the limited partners. This update should resolve that diversity in practice.

.171 The amendments in this ASU apply to master limited partnerships subject to the "Master Limited Partnerships" subsections of FASB ASC 260, *Earnings Per Share*, that receive net assets through a dropdown transaction that is accounted for under the "Transactions Between Entities Under Common Control" subsections of FASB ASC 805-50.

.172 Current GAAP does not contain guidance for master limited partnerships that specifies how historical earnings per unit should be affected when a dropdown transaction occurs that is accounted for as a transaction between entities under common control. The amendments in this ASU are an improvement to GAAP because the amendments specify how the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated to the various interest holders in a master limited partnership for purposes of calculating earnings per unit under the two-class method, thereby eliminating the diversity in practice previously described.

.173 The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The amendments in this ASU should be applied retrospectively for all financial statements presented.

Fair Value Measurement

.174 In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*, because there is diversity in practice related to how certain investments measured at net asset value with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. The objective of this ASU is to address that diversity in practice.

.175 Current GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in FASB ASC 820 be categorized within the fair value hierarchy using criteria that differ from the criteria used to categorize other fair value measurements within the hierarchy.

.176 Under the amendments in this ASU, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy.

.177 A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value.

.178 The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Early application is permitted.

Inventory

.179 In July 2015, FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, as part of its initiative to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

.180 The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. FASB received feedback from stakeholders that the proposed amendments would reduce costs and increase comparability for inventory measured using FIFO or average cost, but potentially could result in significant transition costs that would not be justified by the benefits for inventory measured using LIFO or the retail inventory method due to the complexity inherent in those methods. Therefore, FASB decided to limit the scope of the simplification to exclude inventory measured using LIFO or the retail inventory method.

.181 An entity should measure inventory within the scope of this ASU at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method.

.182 The amendments in this ASU more closely align the measurement of inventory in GAAP with the measurement of inventory in IFRS.

.183 FASB amended some of the other guidance in FASB ASC 330, *Inventory*, to more clearly articulate the requirements for the measurement and disclosure of inventory. However, FASB does not intend for those clarifications to result in any changes in practice. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory within the scope of this ASU, there are no other substantive changes to the guidance on measurement of inventory.

.184 For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied prospectively with early application permitted as of the beginning of an interim or annual reporting period.

Normal Purchases and Normal Sales Scope Exception

.185 In August 2015, FASB issued ASU No. 2015-13, *Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets*, to resolve the diversity in practice resulting in differing views about whether a contract for the purchase or sale of electricity on a forward basis should be eligible to meet the physical delivery criterion of the normal purchases and normal sales scope exception. The exception is defined as when the delivery location is within a nodal energy market, or when the contract necessitates transmission through a nodal energy market and one of the contracting parties incurs charges (or credits) for the transmission of the electricity based in part on locational marginal pricing differences payable to (or receivable from) an independent system operator.

.186 Current GAAP does not contain specific guidance about whether the use of locational marginal pricing by an independent system operator results in net settlement of a contract for the purchase or sale of electricity on a forward basis that necessitates transmission through, or delivery to a location within, a nodal energy market. Thus, the amendments in this update are an improvement to GAAP.

.187 The amendments in this update specify that the use of locational marginal pricing by an independent system operator does not constitute net settlement of a contract for the purchase or sale of electricity on a forward basis that necessitates transmission through, or delivery to a location within, a nodal energy market, even in scenarios in which legal title to the associated electricity is conveyed to the independent system operator during transmission. Consequently, the use of locational marginal pricing by the independent system operator does not cause that contract to fail to meet the physical delivery criterion of the normal purchases and normal sales scope exception. If the physical delivery criterion is met, along with all of the other criteria of the normal purchases and normal sales scope exception, an entity may elect to designate that contract as a normal purchase or normal sale.

.188 The amendments in this update apply to entities that enter into contracts for the purchase or sale of electricity on a forward basis and arrange for transmission through, or delivery to a location within, a nodal energy market whereby one of the contracting parties incurs charges (or credits) for the transmission of that electricity based in part on locational marginal pricing differences payable to (or receivable from) an independent system operator.

.189 The amendments in the update are effective upon issuance and should be applied prospectively. Therefore, an entity will have the ability to designate on or after the date of issuance any qualifying contracts as normal purchases or normal sales.

Recent Pronouncements at a Glance

Recent Auditing and Attestation Pronouncements and Guidance

.190 The following table presents a list of recently issued audit and attestation pronouncements and related guidance.

Recent Auditing and Attestation Pronouncements and Related Guidance	
Interpretation No. 1 Issue Date: January 2015	"Definition of Substantial Doubt About an Entity's Ability to Continue as a Going Concern" of AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, AU-C sec. 9570 par. .01–.02)
Interpretation No. 2 Issue Date: January 2015	"Definition of a Reasonable Period of Time" of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .03.–.05)
Interpretation No. 3 Issue Date: January 2015	"Interim Financial Information" of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .06–.08)
Interpretation No. 4 Issue Date: January 2015	"Consideration of Financial Statement Effects" of AU-C section 570 (AICPA, *Professional Standards*, AU-C sec. 9570 par. .09–.10)

Recent Auditing and Attestation Pronouncements and Related Guidance—continued	
Attestation Interpretation No. 1	"Third-Party Due Diligence Services Related to Asset-Backed Securitizations: SEC Release No. 34-72936," of AT section 201, *Agreed-Upon Procedures Engagements* (AICPA, *Professional Standards*, AT sec. 9201 par. .01–.19) This interpretation provides guidance for when certain agreed-upon procedures engagements performed are considered *due diligence services* as defined in SEC release No. 34-72936, including information about the distribution of findings and procedures and information about using prescribed forms that may require revisions to wording.

Recent Accounting and Financial Reporting Guidance

.191 The following table presents, by codification area, a list of recently issued ASUs through the issuance of ASU No. 2015-15. However, this table does not include ASUs that are SEC updates or that are technical corrections to various topics. FASB ASC does include SEC content to improve the usefulness of FASB ASC for public companies, but content labeled as "SEC staff guidance" does not constitute rules or interpretations of the SEC, nor does such guidance bear official SEC approval.

Recent Accounting Standards Updates	
Presentation Area of FASB *Accounting Standards Codification* (ASC)	
Accounting Standards Update (ASU) No. 2015-1 (January 2015)	*Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*
ASU No. 2015-6 (May 2015)	*Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions (a consensus of the Emerging Issues Task Force)*
Assets Area of FASB ASC	
ASU No. 2015-5 (April 2015)	*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*
ASU No. 2015-11 (July 2015)	*Inventory (Topic 330): Simplifying the Measurement of Inventory*

(continued)

Recent Accounting Standards Updates—continued	
Revenue Area of FASB ASC	
ASU No. 2015-14 (August 2015)	*Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*
Expenses Area of FASB ASC	
ASU No. 2015-4 (April 2015)	*Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*
Broad Transactions Area of FASB ASC	
ASU No 2014-16 (November 2014)	*Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2014-17 (November 2014)	*Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2014-18 (December 2014)	*Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)*
ASU No. 2015-2 (February 2015)	*Consolidation (Topic 810): Amendments to the Consolidation Analysis*
ASU No. 2015-3 (April 2015)	*Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*
ASU No. 2015-7 (May 2015)	*Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)*
ASU No. 2015-13 (August 2015)	*Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)*
ASU No. 2015-15 (August 2015)	*Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)*

Recent Accounting Standards Updates—continued	
Industry Area of FASB ASC	
ASU No 2015-9 (May 2015)	*Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts*
ASU No. 2015-12 (July 2015)	*Plan Accounting: Defined Benefit Pension Plans (Topic 960),Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient (consensuses of the FASB Emerging Issues Task Force)*

Recently Issued Technical Questions and Answers

.192 The following table presents a list of recently issued non-authoritative audit, attest, and accounting technical questions and answers issued by the AICPA. Recently issued questions and answers can be accessed at www.aicpa.org/InterestAreas/FRC/Pages/RecentlyIssuedTechnicalQuestionsandAnswers.aspx.

Recently Issued Technical Questions and Answers	
Financial Statement Reporting and Disclosure—Employee Benefit Plans	
Technical Questions and Answers (Q&A) section 6931.18 (September 2014)	"Definition of 'Imminent' Under Liquidation Basis of Accounting for Single-Employer Defined Benefit and Defined Contribution Retirement Employee Benefit Plans"
Q&A section 6931.19 (September 2014)	"Applicability of Using Liquidation Basis of Accounting for Partial Plan Terminations or Plan Mergers for Single-Employer DB Plans"
Q&A section 6931.20 (September 2014)	"Use of Beginning-of-Year Benefit Information Date Versus End-of-Year Benefit Information Date When Using the Liquidation Basis of Accounting for Single-Employer DB Plans"
Q&A section 6931.21 (September 2014)	"Presentation of the Actuarial Present Value of Accumulated Plan Benefits of Single-Employer DB Plans When Using the Liquidation Basis of Accounting"
Q&A section 6931.22 (September 2014)	"Contribution Receivable From the Plan Sponsor in a Standard Termination of a Single-Employer DB Plan"
Q&A section 6931.23 (September 2014)	"Overfunded Single-Employer DB Plan When Using the Liquidation Basis of Accounting"

(continued)

Recently Issued Technical Questions and Answers—continued	
Q&A section 6931.24 (September 2014)	"Accrued *Costs* When Using the Liquidation Basis of Accounting for a Single-Employer DB Plan"
Q&A section 6931.25 (September 2014)	"Accrued *Income* When Using the Liquidation Basis of Accounting for a Single-Employer DB Plan"
Q&A section 6931.26 (September 2014)	"Comparative Financial Statements When Using the Liquidation Basis of Accounting of a Single-Employer DB Plan"
Q&A section 6931.27 (September 2014)	"Presentation of a Stub Period in a Single-Employer DB Plan When Using the Liquidation Basis of Accounting"
Q&A section 6931.28 (September 2014)	"Presentation of Fully Benefit-Responsive Investment Contracts in Single-Employer DC Plans When Using the Liquidation Basis of Accounting"
Q&A section 6931.29 (September 2014)	"FASB ASC 820 Fair Value Disclosure When an Employee Benefit Plan Is Using the Liquidation Basis of Accounting"
Q&A section 6931.30 (September 2014)	"Single-Employer DB Plan Disclosures When Using the Liquidation Basis of Accounting"
Pension Obligations	
Q&A section 3700.01 (February 2015)	"Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities That Sponsor EBPs"
Predecessor Auditors	
Q&A section 8900.11 (September 2014)	"Management Representation Regarding Prior Periods Presented That Were Audited by Predecessor Auditor"
Not-for-Profit Entities	
Q&A section 6140.26 (January 2015)	"Not-for-Profit Entity With For-Profit Subsidiary and Adoption of FASB ASU No. 2014-02 on Goodwill"
Attest Engagement: The American Land Title Association's Best Practices Framework	
Q&A section 9540.01 (April 2015)	"Types of Engagements"
Q&A section 9540.02 (April 2015)	"Applicability to an Attest Engagement"
Q&A section 9540.03 (April 2015)	"Suitability of Criteria"

Recently Issued Technical Questions and Answers—continued	
Q&A section 9540.04 (April 2015)	"Nature of Examination or Review Procedures"
Q&A section 9540.05 (April 2015)	"Form and Content of Report"
Required Supplementary Information	
Q&A section 9180.01 (August 2015)	"Required Supplementary Information in Historical Prior Periods and Auditor Independence of the Entity"

Recent AICPA Independence and Ethics Developments

.193 In March 2015, the Professional Ethics Executive Committee of the AICPA (PEEC) issued the "Breach of an Independence" interpretation (AICPA, *Professional Standards*, ET sec. 1.298.010). The "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.200.001) states that a member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by council. A breach of an interpretation of the "Independence Rule" would require a member's firm to resign from an attest engagement regardless of the consequences of the breach. PEEC believes that the public interest is not served if a firm is forced to resign from an attest engagement due to a breach of an independence interpretation if the consequences of the breach are such that they do not affect the attest engagement team's integrity, objectivity, and professional skepticism. Under such circumstances, PEEC believes the public interest is better served by robust guidance to assist members in evaluating the impact of the independence breach and determining whether the firm should resign from the attest engagement or whether actions could be taken to satisfactorily address the consequences of the breach. PEEC developed the proposed interpretation, which provides guidance to assist members in evaluating and addressing the consequences of a breach of an independence interpretation.

.194 The guidance clearly states that it is not always possible to address the consequences of a breach of an independence interpretation; even if a member follows the proposed guidance and believes to have satisfactorily addressed the consequences of a breach, it does not preclude a potential investigation or enforcement action. In addition, in order for the provisions of the proposed interpretation to be able to address the consequences of a breach of an independence interpretation, the firm must have established policies and procedures designed to provide it with reasonable assurance that the firm, its personnel, and, when applicable, others subject to independence requirements maintain independence when required. This would include policies and procedures designed to provide the firm with reasonable assurance that it is notified of breaches of an independence interpretation and to enable it to take appropriate actions to resolve such situations. This interpretation becomes effective on March 31, 2016.

.195 In July 2015, PEEC approved the "Firm Mergers and Acquisitions" interpretation. When firms merge or are acquired, the question of independence is raised with respect to the new firm. What if the acquired firm provided accounting services to a client and the acquiring firm performed the audit for the same client? Would there be a self-review threat in the firm? This interpretation provides guidance on issues such as these. Additionally, issues related to employment and association with an attest client are addressed. Prohibited nonattest services are also addressed by the interpretation and whether threats to independence can be overcome. The interpretation is effective for mergers or acquisitions with a closing date on or after January 31, 2016.

On the Horizon

.196 To remain competent, auditors need to keep abreast of accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance. Remember that exposure drafts are non-authoritative and cannot be used as a basis for changing existing standards.

.197 Information on, and copies of, outstanding exposure drafts may be obtained from the various standard-setters' websites. These websites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here.

Auditing and Attestation Pipeline—Nonissuers

Examination of an Entity's Internal Control Over Financial Reporting

.198 In September 2014, the ASB issued an exposure draft of a proposed SAS, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. This proposed SAS moves current AT section 501, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements* (AICPA, *Professional Standards*), into GAAS. It does not include the option to report on management's assertions, thus requiring auditors to examine and report directly on the effectiveness of the internal controls over financial reporting. The proposed SAS is framework neutral and includes options to include the 2013 COSO framework or, if the audit is under governmental standards, refers to the Green Book, which integrates COSO for governmental entities. A final standard is expected in the fall of 2015.

Forming an Opinion and Reporting on Financial Statements

.199 In August, 2015, the ASB issued the proposed statement on auditing standards, *Amendment to Statement on Auditing Standards No. 122 Section 700,* Forming an Opinion and Reporting on Financial Statements, to offer guidance to audits that are completed under PCAOB and GAAS.

.200 Auditors of entities whose audits are within the jurisdiction of the PCAOB, which include audits of issuers and nonissuer broker-dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. In these situations, the AICPA Code of Professional Conduct requires members to conduct the audit of the financial statements in accordance with the standards of the PCAOB and does not require an audit to be conducted in accordance with GAAS.

.201 Other situations exist in which an entity whose audits are not within the jurisdiction of the PCAOB desires (or is required by an agency, by a regulator, or by contractual agreement) to obtain an audit conducted under PCAOB auditing standards. In these situations, the AICPA Code of Professional Conduct requires members to also conduct the audit in accordance with GAAS, which results in the audit being conducted in accordance with multiple auditing standards. The financial statements and the auditor's report may, in some circumstances, be filed with (or furnished to) the SEC.

.202 If adopted, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2015.

Going Concern

.203 The ASB continues to work on issues related to going concern. In addition to the four interpretations that were issued in January, the ASB is considering amendments to AU-C section 570. The amendments are in response to FASB ASU No. 2014-15. The ASB is also considering IASB and PCAOB standards in the new standard. An exposure draft is expected in early 2016 with the standard being issued by the end of 2016 or early 2017.

Proposed SSARS on Preparation and Compilation of Prospective Financial Information

.204 The ARSC is currently considering draft proposed standards that address the preparation and compilation of prospective financial information. The ARSC expects to expose the proposed standards for public comment during the fourth quarter of 2015. At that time, the ARSC will also expose for public comment the proposed clarified AR section 120 on compilation of pro forma financial information with certain minor revisions to SSARS No. 21.

.205 Currently, requirements and guidance with respect to compilations of prospective financial information resides in AT section 301, *Financial Forecasts and Projections* (AICPA, *Professional Standards*). As part of its project to clarify the attestation literature, the ASB decided to remove the guidance regarding compilations of prospective financial information from the attestation standards because compilations are not attestation engagements as defined in the proposed revision of AT section 101, *Attest Engagements* (AICPA, *Professional Standards*).

Proposed Attestation Standards: Clarification and Recodification

.206 Statements on Standards for Attestation Engagements (SSAEs) establish requirements for examining, reviewing, and applying agreed-upon procedures to subject matter other than historical financial statements. For example, SSAEs apply to examination, review, or agreed-upon procedures engagements related to a schedule of investment returns, the effectiveness of controls over the security of a system, a statement of greenhouse gas emissions, or the privacy of personal information.

.207 In July 2013, the ASB issued the proposed SSAE *Attestation Standards: Clarification and Recodification*. In January 2014, the ASB issued the proposed SSAE *Subject-Matter Specific Attestation Standards: Clarification and Recodification*. Both of these proposed SSAEs represent the redrafting of various AT sections to apply the ASB's clarity drafting conventions and are summarized in the following paragraphs.

.208 The July 2013 proposed SSAE would supersede the following AT sections of AICPA *Professional Standards*:

- AT section 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements*
- AT section 50, *SSAE Hierarchy*
- AT section 101
- AT section 201, *Agreed-Upon Procedures Engagements*

Restructuring of the Attestation Standards

.209 The proposed SSAE restructures the attestation standards in the following chapters:

- Chapter 1, "Concepts Common to All Attestation Engagements" (contains the requirements and guidance applicable to any attestation engagement)
- Chapter 2, "Examination Engagements"
- Chapter 3, "Review Engagements"
- Chapter 4, "Agreed-Upon Procedures Engagements"

.210 Subsequent to the issuance of this exposure draft, in January 2014, the ASB issued another exposure draft that summarized its plans to revise the subject-matter specific chapters to adopt the clarity drafting conventions and to conform them to chapters 1–4 of the exposure draft. The subject-matter specific chapters are expected to be contained in chapters 5–8 of the clarified attestation standards. The proposed standard related to subject-matter specific chapters is discussed after this section related to guidance in chapters 1–4.

.211 The January 2014 proposed SSAE restructures the attestation standards so that the requirements and guidance applicable to any attestation engagement are in chapter 1. Separate chapters for examinations, reviews, and agreed-upon procedures engagements build on the common concepts chapter and include performance and reporting requirements and application guidance tailored to the specific type of engagement.

.212 The January 2014 proposed SSAE would supersede the following:

- AT section 301
- AT section 401, *Reporting on Pro Forma Financial Information*
- AT section 601, *Compliance Attestation*

.213 The chapters included in the exposure draft are subject-matter specific chapters that build on chapters 1–4 of the July 2013 exposure draft (the general chapters); for example, an examination of a forecast or a review of pro forma financial information. To avoid repetition, the subject matter-specific chapters do not repeat the requirements and application guidance found in the general chapters, with the exception of a repetition of the basic report elements for the particular engagement(s) covered by the chapter.

.214 It is anticipated that the proposed guidance in the two exposure drafts would be effective simultaneously because the ASB expects to combine the two exposure drafts into a single issued SSAE with a single effective date.

Auditing and Attestation Pipeline—Issuers

Reorganization of PCAOB Auditing Standards

.215 In March 2015, the PCAOB adopted amendments to reorganize the interim standards and the standards PCAOB has issued since 2003 into a topical structure with a single, integrated numbering system, along with certain technical amendments to its rules and standards. The new organizational structure is intended to improve the usability of PCAOB standards and help users navigate the standards more easily. The amendments do not impose new requirements on auditors or change the substance of the requirements for performing and reporting on audits under PCAOB standards. The reorganization and related amendments will be effective, subject to SEC approval, as of December 31, 2016.

The Auditor's Use of the Work of Specialists

.216 The use and importance of specialists has increased in recent years, in part due to the increasing complexity of business transactions and the resulting complexity of information needed to account for those transactions. Auditors often use the work of specialists whom they employ or engage, or the work of specialists who are employed or engaged by the company being audited. Observations from the PCAOB's oversight activities illustrate the need to consider improvements in audit procedures performed by the auditor with respect to specialists. In May 2015, the PCAOB issued Staff Consultation Paper No. 2015-01, "The Auditor's Use of the Work of Specialists," to seek public comment on potential revisions to PCAOB standards. The consultation paper describes the staff's preliminary views concerning the potential need for improvement and potential revisions to the standards. The paper also seeks information on current practices and possible alternatives to address the issues discussed. The PCAOB is interested in getting input from smaller firms on this issue.

Auditor's Reporting Model

.217 In August 2013, the PCAOB proposed a new auditing standard to enhance the auditor's reporting model. The proposed standard would retain the pass or fail model and the basic elements of the current auditor's report, but would require the auditor to communicate a wider range of information specific to the particular audit.

.218 The proposed standard would require

- the communication of critical audit matters as determined by the auditor;
- enhancements to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements; and
- the addition of new elements to the auditor's report related to
  - — auditor independence;
  - — auditor tenure; and
  - — the auditor's responsibilities for, and the results of, the auditor's evaluation of other information outside the financial statements.

Accounting and Financial Reporting Pipeline

Business Combinations

.219 In May 2015, FASB issued a proposed ASU, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, because stakeholders told FASB that the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination adds cost and complexity to financial reporting; however, the requirement does not significantly improve the usefulness of the information provided to users.

.220 To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the proposed amendments would require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer also would record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

Investments—Equity Method and Joint Ventures

.221 In June 2015, FASB issued proposed ASU *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting* as part of its initiative to reduce complexity in accounting standards.

.222 FASB is proposing to eliminate the requirement for an equity method investor to account for the basis difference, which is the difference between the cost of an investment and the investor's proportionate share of the net assets of the investee. Under existing equity method guidance, an entity determines the acquisition date fair value of the identifiable assets and liabilities assumed in the same manner as for a business combination. The entity's proportionate share of the difference between the fair value of the investee's identifiable assets and liabilities assumed and the book value of recorded assets and liabilities generally must be accounted for in net income in subsequent periods.

.223 Stakeholders have told FASB that accounting for the basis difference of equity method investments adds cost and complexity to financial statement reporting without improving the usefulness of the information provided to investors. Stakeholders noted that determining the acquisition date fair value of an investee's identifiable assets and liabilities assumed can be costly and, in some cases, an entity may not have access or may have limited access to the information necessary to perform the assessment because it does not control the investee.

.224 The proposed amendments would eliminate the requirement to separately account for the basis difference of equity method investments. An entity would recognize its equity method investment at its cost and would no longer determine the acquisition date fair value of the investee's identifiable assets and liabilities assumed.

.225 The proposed amendments also would eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The proposed amendments would no longer require an equity method investor to retroactively perform a fair value allocation of the basis difference as of the original purchase date of the investment and adjust prior earnings for equity method earnings, which include consideration of intercompany profits and losses, amortization of the basis difference, and impairment testing.

.226 The effective date, as well as whether early adoption would be permitted for the elimination of accounting for the basis difference, will be determined after FASB considers stakeholder feedback on the amendments in this proposed update.

Private Company Council

.227 FASB ASC 250-10-45 puts forth requirements for a change in accounting principle. Entities must show that the change is preferable unless the initial adoption is due to events that had not occurred previously. If a company wishes to make an accounting change in other circumstances, it must be in response to a new standard becoming effective or because the accounting principle being selected is preferable.

.228 Preferability is also required for all standards that have come through the Private Company Council (PCC). However, if adoption of a new standard has occurred upon the effective date, preferability has been assumed. If at a later date the company wished to make a change in accounting principle, justification that the new election is preferable must be made.

.229 The PCC is currently working on "Preferability of PCC Alternatives." The PCC recommended that FASB consider whether the unconditional one-time option should be extended to other private company alternatives developed by FASB using the Private Company Decision-Making Framework. This recommendation also applies to future private company alternatives deliberated by FASB using this framework. The PCC also recommended that FASB consider providing additional guidance on assessing preferability for private company alternatives.

Independence and Ethics Pipeline

.230 PEEC is working on several new projects. The *Independence in State and Local Government* project is focused on considering incorporating the threats and safeguards approach into the "Entities Included In State and Local Government Financial Statements" interpretation (AICPA, *Professional Standards*, ET sec. 1.224.020). This project is also focused on determining if a conceptual framework assessment could be utilized to determine when a member needs to be independent of state and local governmental entities for which he or she is not providing financial statement attest services. PEEC will also determine if clarification is needed with respect to who at the firm and which immediate family members the interpretation should extend to, if the interpretation should contain any exceptions, and if the final guidance could be extended to the federal government environment.

.231 The *Information and Technology and Cloud Services* project is focused on reviewing the examples provided in the nonattest services subtopic that involve manipulation and non-manipulation of client data and determining if any of the examples are in need of some modernization so that the terminology used in the examples, and examples themselves, align with current practice. PEEC is studying all types of firm software that are used by clients, including firm software products that are accessed remotely or are loaded to the client's system, and determining if any revisions to the AICPA Code of Professional Conduct are necessary. PEEC is also discussing the various cloud related advisory services to see if any examples could be added to the Advisory Services or IT services interpretation.

.232 More information may be found at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/DownloadableDocuments/peec-three-year-agenda.pdf.

Resource Central

.233 The following are various resources that practitioners may find useful.

Publications

.234 Practitioners may find the following publications useful. Choose the format best for you—print, eBook, or online. Although the most current editions available at the date of writing of this alert are subsequently identified, you will want the newest edition available at the time of purchase:

- Audit Guide *Analytical Procedures* (2012) (product no. AAGANP12P [paperback], AAGANP12E [eBook], or WAN-XX [online])
- Audit Guide *Special Considerations in Auditing Financial Instruments* (2014) (product no. AAGAFI14P [paperback], AAGAFI14E [eBook], or AAGAFIO [online])
- Guide *Preparation, Compilation, and Review Engagements* (2015) (product no. AAGCRV15P [paperback], AAGCRV15E [eBook], or WRC-XX [online])
- Audit Guide *Assessing and Responding to Audit Risk in a Financial Statement Audit* (2014) (product no. AAGARR14P [paperback], AAGARR14E [eBook], or WRA-XX [online])
- Audit Guide *Audit Sampling* (2014) (product no. AAGSAM14P [paperback], AAGSAM14E [eBook], or WAS-XX [online])
- Alert *Developments in Preparation, Compilation, and Review Engagements*—2015/16 (product no. ARACRV15P [paperback] or ARACRV15E [eBook])
- Alert *Independence and Ethics Developments*—2014/15 (product no. ARAIET14P [paperback], ARAIET14E [eBook], WAI-XX [online])
- Alert *Understanding Revenue Recognition: Changes to U.S. GAAP (2014)* (product no. ARAREV14P [paperback], ARAREV14E [eBook], or ARAREVO [online])
- *Internal Control—Integrated Framework: Executive Summary, Framework and Appendices, and Illustrative Tools for Assessing Effectiveness of a System of Internal Control* (3 volume set) (product no. 990025P [paperback], 990025E [eBook], ACOSO2O [online])

- *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure* (formerly *Accounting Trends & Techniques*) (product no. ATTATT15P [paperback] or ABPPDO [online])
- *Audit and Accounting Manual* (2014) (product no. AAMAAM15P [paperback] or WAM-XX [online])
- *The Auditor's Report: Comprehensive Guidance and Examples* (product no. APAARMO [online])
- *The Engagement Letter: Best Practices and Examples* (product no. APAEGLO [online])
- Practice Aid *Related-Party Audit Considerations: A Case Study Approach* (product no. APARPS12P [paperback], APARPS12E [eBook], or APARPSO [online])
- Audit Risk Alert *Understanding the Responsibilities of Auditors for Audits of Group Financial Statements* (product no. ARAGRP13P [paperback], ARAGRP13E [eBook], or ARAGRPO [online])

Continuing Professional Education

.235 The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in public practice and industry, including the following:

- *Annual Accounting and Auditing Workshop* (product no. 736191 [text] or 187199 [DVD/manual]). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *IFRS Certificate Program* (product no. 159770). Using a scenario-based series of courses with audio, video, and interactive exercises and case studies, this program will guide you through the concepts of each area of IFRS.
- *Internal Control and COSO Essentials for Financial Managers, Accountants, and Auditors* (product no. 731907 [text] or 159823 [On-Demand]). This course will provide you with a solid understanding of systems and control documentation at the significant process level.
- *IFRS vs. GAAP: What are the Differences?* (product no. 745943 [text]). Understanding the differences between IFRS and GAAP is becoming more important for businesses of all sizes. This course outlines the major differences between IFRS and GAAP.
- *FASB Review for Business and Industry* (product no. 730571 [text] or 163970 [On-Demand]). Comprehensive coverage of recent FASB and IASB pronouncements geared to the specific interests of the CPA in corporate management.

.236 Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.237 CPExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, CPExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at www.cpa2biz.com/AST/AICPA_CPA2BIZ_Pages/C2BOnlineSubscriptionsPage/Section2/PRDOVR~PC-BYF-XX/PC-BYF-XX.jsp (product no. BYF-XX). Some topics of special interest may include the following:

- Accounting and Auditing Update
- Small Business Accounting and Auditing Update
- Fair Value Accounting
- Accounting for Goodwill and Other Intangibles
- Uncertainty in Income Taxes
- Revenue Recognition
- Fraud and the Financial Statement Audit
- Public Company Update
- SEC Reporting

.238 To register for individual courses or to learn more, visit www.cpa2biz.com.

Webcasts

.239 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit www.cpa2biz.com/AST/AICPA_CPA2BIZ_Browse/Store/Webcasts.jsp.

Member Service Center

.240 To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

Hotlines

Accounting and Auditing Technical Hotline

.241 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx.

.242 Members can also email questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a technical inquiry form found on the same website.

Ethics Hotline

.243 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 (select 6 on your phone's keypad, followed by 1) or by email at ethics@aicpa.org.

Center for Plain English Accounting

.244 The Center for Plain English Accounting (CPEA) is a new service available to PCPS member firms. It provides expertise and resources in a straightforward and clear style. Written responses to technical inquiries, webcasts on hot topics, and monthly A&A reports and alerts help practitioners understand and implement the authoritative professional literature when they are auditing, reviewing, preparing, and compiling financial statements. To join the CPEA and take advantage of these valuable resources, visit the CPEA website at www.aicpa.org/InterestAreas/CenterForPlainEnglishAccounting/Pages/CPEA.aspx.

AICPA Online Professional Library: Accounting and Auditing Literature

.245 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm's needs. You can sign up for access to the entire library. Get access—anytime, anywhere—to FASB ASC; the AICPA's latest *Professional Standards*, *Technical Practice Aids*, Audit and Accounting Guides, Audit Risk Alerts, *U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure*; and more. To subscribe to this essential online service for accounting professionals, visit www.cpa2biz.com.

Financial Reporting Center of AICPA.org

.246 CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center to support you in the execution of high-quality financial reporting. This center provides exclusive member-only resources for the entire financial reporting process and can be accessed at www.aicpa.org/frc.

.247 The Financial Reporting Center provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.

.248 For example, the Financial Reporting Center offers a dedicated section to the Clarity Project. For the latest resources available to help you implement the clarified standards, visit the "Improving the Clarity of Auditing Standards" page at www.aicpa.org/SASClarity.

Industry Websites

.249 The Internet covers a vast amount of information that may be valuable to auditors, including current industry trends and developments. Some of the more relevant sites for auditors include those shown in the following table.

Website Name	***Content***	***Website***
AICPA	Summaries of recent auditing and other professional standards, as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Financial Reporting Executive Committee (formerly known as the Accounting Standards Executive Committee)	Summaries of recently issued guides, whitepapers, and technical questions and answers containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/Pages/FinREC.aspx
AICPA Accounting and Review Services Committee	Summaries of review and compilation standards and interpretations	www.aicpa.org/research/standards/compilationreview/arsc/pages/arsc.aspx
Committee of Sponsoring Organizations of the Treadway Commission	Information about the committee and the internal control framework developed by the committee	www.coso.org
Moody's Analytics	Source for analyses, data, forecasts, and information on the U.S. and world economies	www.economy.com
The Federal Reserve Board	Source of key interest rates	www.federalreserve.gov
FASB	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
International Accounting Standards Board	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org
International Auditing and Assurance Standards Board	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants	Information on standard-setting activities in the international arena	www.ifac.org

Website Name	***Content***	***Website***
Private Company Council	Information on the initiative to further improve FASB's standards-setting process to consider needs of private companies and their constituents of financial reporting	www.accountingfoundation.org/jsp/Foundation/Page/FAFSectionPage&cid=1176158985794
PCAOB	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org
SEC	Information on current SEC rulemaking and the Electronic Data Gathering, Analysis, and Retrieval database	www.sec.gov
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov