



October 26, 2016

PCAOB Standard Setting Agenda: What Audit Committee Members Should Be Aware Of

AUDIT, PUBLIC COMPANIES

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Quarterly, the PCAOB releases its [Standard Setting Agenda](#), which is used to share topics that are on the forefront of change or consideration. The most recent graduate of this agenda, PCAOB Release No. 2015-008 "Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form," was released in December 2015 and approved by the SEC in May 2016.

The following project listing represents the PCAOB's current initiatives, put in place to continue improving the transparency, effectiveness and usefulness of public company audits for users of the financial statements. As members of a public company audit committee, here are some areas of focus to consider in current and future engagements:

1. Auditor's Reporting Model

Timing: Q4 2016

The comment period for this project is closed, with the final drafting and adoption release in process. This repropose standard pertaining to the auditor's report has been critiqued from its original proposal in August 2013. The updated version will require the auditor's report to explicitly disclose "critical audit matters," including, but not limited, to describing subjective or challenging facets of the audit itself. Further, the report will be required to specify the auditor's responsibility and role in a more defined manner. The goal is to make the report language more user-friendly and easier to understand for external users of the financial statements.

2. Auditing Accounting Estimates, Including Fair Value Measurements

Timing: Q1 2017

Subjective factors in financial reporting, such as estimates and fair value measurements, require focused scrutiny from the auditors opining on such matters. The PCAOB recognizes the governing auditing standards require equal emphasis, as external users assign a high value to these items. With changing financial reporting frameworks and new disclosure requirements related to fair value measurements, the PCAOB has thrust this project to the front of the queue; the staff intends on requesting revisions through public comments in Q1 2017.

3. The Auditor's Use of the Work of Specialists

Timing: Q1 2017

This project is intended to work in conjunction with items #2 and #4 on this agenda. The intricacy of certain business transactions, such as estimates and fair value measurements (as noted above), may require the use of a specialist to

ensure that reporting is as accurate as possible. The PCAOB will be requesting revisions through public comments in Q1 2017.

4. Supervision of Audits Involving Other Auditors

Timing: TBD

The PCAOB is currently reviewing public comments received and deciding the appropriate steps in improving the auditing standards overseeing the use of “other auditors.” Other auditors are defined by the PCAOB as “other accounting firms and individual accounts, aside from the lead auditor.” The globalization of both business operations and accounting firms, as well as the complexity of certain business transactions (re: #3 above), has enhanced the need and frequency of such audits.

5. Going Concern

Timing: TBD

This project is currently in the research and outreach stage. The PCAOB recognizes that an auditor’s assessment of a company’s going concern can be a key factor for investors. Accordingly, the standard may need to be revised in accordance with ASU 2014-15, Presentation of Financial Statements – Going Concern. A course of action for this project has not been released.

6. Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities

Timing: TBD

This project is currently in the research and outreach stage and relates to proposed improvements in firm’s quality control processes, specifically, the “assignment and documentation of firm supervisory responsibilities.” During this time, the PCAOB is monitoring various groups’ QC-related initiatives, and will be requesting input from domestic and international firms in a format to be determined.

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