



January 2012

A&A Update

The Technical Standards Update of Crowe Horwath International

January 2012 Audit Manual

By the time you receive this newsletter, or shortly thereafter, the January 2012 Audit Manual with supporting forms and checklists will be available for download from the A&A Resources folder on ShareFile.

Please note that as of 15 January 2012 the password needed to access ShareFile will be changed. Please see the accompanying email for details.

From The Standards Setters

Seidman, Hoogervorst See An End To Convergence – December 2011

Although the FASB and IASB have moved their standards closer together during a decade-long effort, the leaders of both boards are resigned to their inability to continue the process as is. Instead, support seems to be building for a plan being considered by the SEC to have the FASB endorse international standards one at a time. This is similar to the approach taken by the EU.

This decision comes six months after a self-imposed deadline expired without the boards completing the projects in their Memorandum of Understanding, the document that outlined the standards in U.S. GAAP and IFRS that would be merged into a single set of accounting principles. By 2010, the boards jettisoned most of the MOU projects to focus on three—financial instruments, revenue recognition, and lease contracts. A fourth project on insurance accounting that had been begun by the IASB was rolled into the convergence effort after the FASB signed on.

The revenue project, and perhaps lease accounting, may produce final, converged standards in the next 12 months. The outcome for financial instruments and insurance contracts is less certain.

Crafting a global set of accounting rules with U.S. and international standard-setters at the same table is not workable in the long-term, FASB Chairman Leslie Seidman and IASB Chairman Hans Hoogervorst said December 6, 2011, in remarks at the AICPA National Conference on Current SEC and PCAOB Developments in Washington.

IAASB Issues Practice Note On Financial Instruments

The IAASB issued in December International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*. This is not an authoritative pronouncement, but it contains excellent guidance. The board said the goal of the practice notes was to assist auditors when they are addressing valuation and other considerations pertaining to financial instruments. The full text is available for download [here](#).

FASB Defers Comprehensive Income Rules

The FASB deferred some of the rules it issued earlier this year to make the presentation of other comprehensive income more prominent on financial statements. See [ASU 2011-12](#) for details.

From the Regulators

Revised Proposal On Auditor Communications Issued In Release No. 2011-008

The PCAOB's proposal in [Release No. 2011-008](#) is an updated version of the 2010 proposal in Release No. 2010-001. The board is trying to replace the interim guidance in AU Section 380 and AU Section 310, but critics of the proposal worry that it will stifle candid discussions between auditors and board audit committees.

For PCAOB registered firms – A Reminder

Practical Guide To PCAOB Reporting Rules

As you know, the Sarbanes-Oxley Act of 2002 (SOX) requires that any accounting firm that prepares or issues an audit report with respect to a U.S. public company must register with the Public Company Accounting Oversight Board (PCAOB). The PCAOB seeks to increase transparency and reduce the risk of auditing failures while not compromising audit quality.

The PCAOB Reporting Rules

The reporting rules are requirements of SOX section 102(d) that registered public accounting firms:

- Report annual information about the firms and their audit practices
- Submit, as specified by the PCAOB or the SEC, more frequent information necessary to update the information previously filed with the PCAOB.

Rules And Their Purpose

The purposes of the new rules:

- To keep the PCAOB up-to-date on a firm's basic professional information.
- To provide the PCAOB with current information regarding a firm's audit practice
- To alert the PCAOB of any events that would require more immediate action by the PCAOB in terms of inspections or enforcement and that might otherwise warrant public disclosure.

As required by SOX section 102(e), all registration applications and annual reports will be made publicly available, subject to PCAOB and SEC rules on the confidentiality of proprietary and personal information.

Annual Report Filing Requirements

Form 2 requires an annual affirmation that the firm consents to cooperate with the PCAOB and to enforce such cooperation by associated persons.

Form 2 must include:

- **A signed certification by an authorized partner or officer.** This certification confirms the completeness of the annual report on Form 2 and also confirms that the firm has filed all required special reports on Form 3 during the applicable reporting period.

Special Reports – Form 3

There are two types of reporting obligations by the PCAOB

- Firms must provide annual information, covering a 12-month period that ends March 31, by filing an annual report on Form 2.
- Separately, registered firms must submit special reports on Form 3 within 30 days of the occurrence of the special “triggering” event.

The events that must be reported on Form 3 are described in Part II (and the instructions to Part II) of Form 3. In reviewing the descriptions of events that must be reported, firms should bear in mind that some terms used in those descriptions are defined, for these purposes, in ways that may differ from a firm’s common usage of the terms. Defined terms used in Form 3 are italicized, and the definitions can be found in PCAOB Rule 1001 or by clicking on an italicized term in the online form.

Form 4

The new PCAOB rules allow, in certain circumstances, a firm’s registration to continue with a firm that survives a merger or other changes in the registered firm’s legal form.

The proposed rules provide the opportunity for succession for registered firms in two categories:

- Changes related to a firm’s legal form of organization or jurisdiction in which it is organized
- Transactions in which a registered firm is acquired by an unregistered entity or combines with other entities to form a new legal entity.

A firm has a deadline 14 calendar days after the effective date of the transaction to file the report on Form 4. The successor firm may apply to the PCAOB to allow for a late filing, but must include a statement explaining the reasons for the late filing and why it should be allowed.

Disciplinary Authority

According to the adopted rules, all registered firms are subject to inspections by the PCAOB at any time relating to the preparation and issuance of audit reports. Firms are required to cooperate with PCAOB and, upon request, provide documents and information relating to information provided on Form 2 or Form 3 or any other information that has come to the firm’s attention. When violations are identified, the Board provides an opportunity for a hearing, and in appropriate cases, imposes sanctions, designed to deter a possible recurrence and to enhance the quality and reliability of future audits.

Firms may file an amendment to a Special Report if the information they had originally reported in the Special Report contains incorrect or incomplete information.

Public Availability Of Reports

Each firm’s annual and special reports will be made available to the public on the PCAOB website, subject to exceptions for information that satisfies specified criteria for confidential treatment. A firm may not request confidential treatment for certain other specified types of information. Each Form 2 and Form 3 will become immediately available to the public upon filing.

Reporting PIE And Transnational Clients – Due This Month (31 December 2011)

Please update the PIE list with your additions/deletions since the last reporting date (30 September 2011). You can access it on our ShareFile site. **Note:** *Independence checks using this list will not be as effective if **everyone** does not report their PIE clients to be included on the list.*

An **Excel** template is available on ShareFile to be used to facilitate the reporting. Send the list to Beth Share at beth.share@crowehorwath.net. You may also contact Beth for access instructions.

Please report the additions/deletions by 15 January 2012, in accordance with network policy.

IMPORTANT:

Reporting of this information is required not only by member network firms doing the audit, review or other assurance service, but also by the network firms providing **non-assurance** services. This will help to avoid potential independence impairments and/or conflicts of interest that arise when assurance engagements are accepted for PIEs that are already non-assurance clients.

Useful Links

- International Accounting Standards Board (IASB) www.iasb.org
- IASB Exposure Drafts open for comment www.iasb.org/Open+to+Comment/International+Accounting+Standards+Board++Open+to+Comment.htm
- International Auditing and Assurance Standards Board (IAASB) www.ifac.org/iaasb
- International Federation of Accountants (IFAC) www.ifac.org
- IFRS Interpretations Committee (IFRIC) www.iasb.org/Updates/IFRIC+Updates/IFRIC+Updates.htm
- Financial Accounting Standards Board (FASB) www.fasb.org
- Public Company Accounting Oversight Board (PCAOB) www.pcaob.org
- American Institute of CPAs Auditing Standards Board (AICPA ASB) www.aicpa.org/InterestAreas/AccountingAndAuditing/Pages/AccountingandAuditing.aspx
- United States Securities and Exchange Commission (SEC) www.sec.gov
- European Commission (EC) ec.europa.eu/internal_market/index_en.htm
- Forum of Firms (FoF) www.ifac.org/Forum_of_Firms
- Transnational Auditors Committee (TAC) www.ifac.org/TransnationalAuditors
- Transnational Auditors Committee's Guidance Statement No. 1, Definition of
- Transnational Audit - web.ifac.org/download/TAC_Guidance_Statement_1.pdf
- UK Financial Reporting Council www.frc.org.uk

CaseWare / CHIAT

New This Month

- Form SAMP – It has been noted that this form is in the CHIAT and it should not be. It contains sampling guidance that is not consistent with the Crowe Horwath International audit methodology. We will of course delete the form from future release of the CHIAT.
- Questions have been submitted about forms (checklists) that do not have a “reference” column for the entry of a workpaper reference, e.g. Forms 405 and 410. A reference field does exist for all checklists, but it may not display when the form is opened. If you would like to display/use the reference field, click on “document” at the top of the form, select “properties” and then check the box that says “reference” (in the middle of the dialog box). This will cause the reference field to display on the form.
- Form 420 – Materiality - In section A, the first row is income (loss). If there is a loss, the calculated materiality column may populate with a bracketed number once the benchmark % applied field is filled in. This is because the formula for calculated materiality is not configured as an absolute value formula. (CaseWare may correct this in later versions.) If you wish to always have the calculated materiality display as a positive value you can edit the cell formula by doing the following:
 - On the top tool bar, click “view” and select “enable editing”
 - Right click in the “calculated materiality” cell
 - Put your cursor on “edit”
 - Near the bottom of the list of edit options is “Negative As”
 - Put your cursor on “Negative As” and select “Positive”

Reminders

Many of you CaseWare subscribers are also subscribers to CaseWare audit templates **other than** the CHIAT. If you are using an audit template other than the CHIAT please note the following:

- **Users of audit templates other than the CHIAT and the CaseWare International Audit Templates (CWIAT)** – Some CaseWare distributors license access to audit templates prepared for local markets. These templates go by a variety of names, but they are not called CaseWare International Audit Template. Users of these templates will, by 2014, need to migrate to either a CWIAT or the CHIAT. The CHIAT is recommended. The reasons for migrating are that there is no consistency between the structure of the local templates and they do not incorporate the CH International Audit Methodology. This makes keeping these templates up to date very difficult. If you choose to migrate to a CWIAT you will have to make the modifications discussed in the next paragraph.
- **Users of a CaseWare International Audit Template (CWIAT) but not the CHIAT** – You may continue to use the CWIAT indefinitely, but you will have to make certain modifications to the CWIAT to bring it into compliance with the CH International Audit Methodology. You may also have to make modifications to bring the CWIAT into compliance with your local requirements. For this reason, it is recommended that you migrate to the CHIAT. You will continue to have to make modifications for local requirements, but you will not need to be concerned with CH International Audit Methodology modifications as these are already included in the CHIAT. The mandatory modifications that have to be made to any CWIAT can be found on the ShareFile site at <https://crowehorwathinternational.sharefile.com/d/scc4e4093f5d481b9>.

So as not to overwhelm the readers of this newsletter with too much detailed information about CHAMP, we have added a **Frequently Asked Questions** document (CW FAQ), and **Tips for Efficient CaseWare Implementation** to ShareFile in the A&A Resources\CH Int'l Audit Template folder. These documents will be updated regularly.

To make the implementation process as efficient as possible, to avoid reinventing the wheel wherever possible and to make the CHIAT as valuable a tool as possible, we need **your** input on an ongoing basis. Please forward your

comments about modifications / customizations you have made and other suggestions for improvement to any of us. Your input is valued and appreciated.

- David.chitty@crowehorwath.net
- Howard.sibelman@crowehorwath.net
- Beth.share@crowehorwath.net

Administrative Matters

Notes to Managing Partners

- Please forward this email to your A&A Quality Control leader for further distribution in your firm, or to all your A&A partners directly.
- We are in the process of building a distribution list of the A&A QC partner in each member firm. Please send the name and email address of that partner to andrew.leong@crowehorwath.net. Thank you

We hope you find this newsletter useful and welcome your feedback at any time on how it might be improved. Please send Howard Sibelman (howard.sibelman@crowehorwath.net) information on the following items:

- Notification of developments and changes in technical standards in your country,
- A&A materials (in electronic format) that are related to technical standards that a member firm has distributed in its local market and is willing to share with other members,
- Anything else you feel is worthy of inclusion in this newsletter, and
- Comments / suggestions for improvements to the newsletter.

For prior issues, please visit the “members only” section of our website at: www.crowehorwath.net/hw/member_login.cfm.

If you do not have a password and login, send an email to crowehiadmin@crowehorwath.net

Independence / Conflict Of Interest Form

The following form should be used for all independence / conflict of interest checks circulated around the network. The initiator of the request is to fill out the form and then forward the completed form to New York for circulation to the network. A Word copy of the form is available on ShareFile (see above).



INDEPENDENCE / CONFLICT OF INTEREST FORM

To ensure that all potential independence and conflict of interest issues are identified and handled in accordance with Crowe Horwath International network policies, an independence check should be done before accepting any new engagement for multi-national and public-interest entities (PIE).

This completed form should be sent to Andrew Leong at andrew.leong@crowehorwath.net for distribution throughout the network only when you need to be sure there are no independence issues for transnational and PIE entities.

A) POTENTIAL CLIENT NAME AND NATURE OF ENGAGEMENT

B) THE OTHER DETAILS IN THIS MATTER ARE AS FOLLOWS:

1.	Name of all entities involved - legal and operating names:	
2.	Address of potential client and parent company (if any):	
3.	Name(s) of any predecessor entities:	
4.	Type of business or activity:	
5.	Name(s) of any related companies or entities:	
6.	Name(s) of principals:	
7.	Current accountant/ auditor:	
8.	Please indicate the reason(s) this independence check is required:	

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