



June 2012

A&A Update

The Technical Standards Update of Crowe Horwath International

From The Standards Setters

Debt Instruments Will Be Measured the Same Way in U.S. GAAP and IFRS

FASB and IASB moved closer to a converged solution on financial instruments when IASB agreed to an FASB position and added a third category for classifying and measuring debt instruments. The IASB now agrees that banks and other financial companies may record changes in the value of their bonds and loans in other comprehensive income in addition to earnings. This will change IFRS 9, *Financial Instruments*, which allows instruments to be measured, depending on business model, at either fair value or amortized cost, with changes in fair value showing up in net income, not OCI.

The agreed-to third measurement category is similar to the “available-for-sale” category in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, (now FASB ASC 320-10). Available-for-sale instruments can be sold at management's discretion in response to a change in business strategy, market conditions, or another unexpected reason.

In making this decision, the IASB agreed with companies and auditors that two categories were too restrictive. In addition, they wanted to converge with the FASB, which uses three methods of measurement.

SME Implementation Group publishes four final Q&A

During April, the SME Implementation Group (SMEIG) published four question and answer documents (Q&A) on the *IFRS for SMEs*:

- Q&A 2012/01 Application of ‘undue cost or effort’
- Q&A 2012/02 Jurisdiction requires fallback to full IFRSs
- Q&A 2012/03 Fallback to IFRS 9 *Financial Instruments*
- Q&A 2012/04 Recycling of cumulative exchange differences on disposal of a subsidiary

To access the Q&A [click here](#).

IASB publishes proposals for amendments under its annual improvements project

The IASB published an exposure draft of proposed amendments to eleven IFRS under its annual improvements project.

To access the document, [click here](#).

Spanish Translation of the *Code of Ethics for Professional Accountants*

IFAC announced the availability of the Spanish translation of the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Accountants (IESBA).

From the Regulators

PCAOB Expresses Concerns about Audit Quality during Economic Slowdown

PCAOB officials are concerned about the decline in quality they've found in the field in the past few years. Problem audits are becoming more common, and the weak economy may be behind them. "We've actually found an increase in deficiencies in the 2010-2011 audit cycle, and that is very disturbing," said Jeanette Franzel, PCAOB member, recently at a New York conference.

The problems cited include cases where auditors have issued clean opinions even though the audit work is incomplete or not properly conducted, financial statement information is contradicted by other available evidence, or audit conclusions on material issues are based on management's views without independent verification.

Reminder for all PCAOB registered firms

The annual reporting period has ended (31 March) with Form 2 due by 30 June. Please [click here](#) for additional information.

PCAOB Offers New Audit Firm Search Functions

The Public Company Accounting Oversight Board is making it easier to find information about audit firms. The PCAOB has introduced a new page on its Web site that will allow users to search through an interactive list of registered firms by different factors. Users can search by firm location, type of audit firm practice, and other factors. The list will also allow users to sort, group and filter the list of registered firms based on a variety of characteristics.

The page will let users find registered firms located in particular cities, states or countries. In addition, Web site visitors will be able to search for all registered firms in each of the following categories, as determined by the firms' most recent annual reports on Form 2:

- Firms that issued an audit report for at least one issuer
- Firms that did not issue audit reports for issuers but played a substantial role in the audit of at least one issuer
- Firms that did not issue audit reports for issuers or play a substantial role in issuer audits but issued a report on the financial statements of at least one broker-dealer
- Firms that did none of those things

From this new, interactive page, Web site users can also link to a firm summary page for each of the more than 2,000 registered firms. The firm summary page includes links to the registration application (Form 1) for each firm, any annual and special reports filed by the firm (Forms 2 and 3), and inspection reports and disciplinary proceedings, if there are any.

The interactive list can be reached at [this link](#), through the PCAOB home page at www.pcaobus.org (first bullet under Registration and Reporting) or via the registration and reporting page at <http://pcaobus.org/Registration/Pages/default.aspx>. The new list of registered firms will replace the current PDF lists of registered firms by name and location which will remain available through Friday, May 11.

PCAOB Auditor Rotation Decision May Be Two Years Away

The PCAOB's consideration of mandatory audit firm rotation has stirred up a firestorm of opposition. Despite the criticism, the board is determined to give the issue a lengthy public debate. Whatever the board decides to do, it may not complete the process until 2014.

JOBS Act Generates a Multitude of Questions

As might be expected, the JOBS Act is generating a significant number of questions for the SEC to answer. The SEC has set up a number of websites to address commonly-asked questions. You may find this link a helpful starting point if you have any questions about the JOBS Act.

<http://search.sec.gov/secgov/index.jsp#queryResultsTop>

Headlines from around the world

Centro case - Australia (with gratitude to our friends at WHK)

Many of you will have been following the court case against Cento's auditors which is currently ongoing. For anyone who has missed it, a couple of articles are below.

www.theage.com.au/business/pointing-the-finger-in-blame-game-20120420-1xcl6.html

www.smh.com.au/business/junior-employee-blamed-for-centros-bungled-audit-20120418-1x7j4.html

We can hopefully all agree that a partner taking the stand in court to blame subordinate employees for an audit failure is not a good position for a firm to be in. However, the case also raises a number of other questions about the role and responsibilities of auditors:

- The importance of professional skepticism. Mr Cogle (the lead partner on the Centro audit) expressed his disappointment that management did not raise the issue with him, but does not appear to have investigated the debt refinancing position closely enough himself. This goes to the heart of what is meant by professional skepticism on an audit. It's not sufficient to only seek to gather or create evidence to support the position management has taken. We should be robustly challenging and questioning management's approach to key issues, and we have an equal duty to seek out and consider evidence that contradicts or disproves their position as well as evidence which supports it.
- An emphasis on the importance of review by the lead partner of critical risk areas, which does not appear to have occurred in this case. The publicity around this case may lead to a requirement for more extensive review by engagement leaders, with consequent impact on costs.
- A further reminder of the importance of assessing whether debt is current or non-current under AASB 101 / NZ IAS 1. It is irrelevant whether the client has a long-term relationship with the bank and expects debt to be rolled over as a matter of course. If the bank has any sort of contractual right to withdraw funding, then debt is current. Many Australian bank loan agreements contain wording relating to an annual "review" which would trigger this requirement. I would suggest that wherever a client has non-current debt on their balance sheet, we should have a workpaper stating that we have reviewed the loan agreement, and explaining why this treatment is considered acceptable.

It has been reported that a settlement has been reached, to which the auditor, while admitting no wrongdoing, will be contributing upwards of US\$70 million.

This is therefore a good opportunity to remind your teams of the importance of these issues.

Deloitte China charged by the SEC

The SEC has charged Deloitte's Chinese member firm with 'willfully' violating the Sarbanes-Oxley Act and the Securities Exchange Act of 1934 by failing to provide audit work papers. The SEC launched administrative action against the firm after several unsuccessful attempts to obtain documents related to the audit of Longtop Financial Services. Deloitte China is prevented by Chinese law from handing over the paperwork of a Chinese company to a foreign regulator. If the SEC's case is successful in front of an administrative judge, Deloitte China might face a fine or be barred from practicing under the SEC's jurisdiction.

Big Four in China must restructure

In a raft of new localization rules that begin in August, China's accounting firms must be led by Chinese citizens and ensure the number of foreign partners does not exceed 40%. The rules are designed to place control of large firms into the hands of Chinese and ensure voting rights are dominated by Chinese-qualified CPAs. This will have the biggest impact on the Big Four, who are currently led by foreign citizens and have a large number of expatriate partners. By 2017, the Ministry of Finance announced, firms must have no more than 20% of partners qualified outside of China.

Useful Links

- Crowe Horwath International ShareFile site www.crowehorwathinternational.sharefile.com
- 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
- TAC 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

Published by Crowe Horwath International

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