



March 2012

A&A Update

The Technical Standards Update of Crowe Horwath International

From The Standards Setters

IAASB STAFF ISSUES Q&A DOCUMENT ON PROFESSIONAL SKEPTICISM

The staff of the IAASB recently released *Professional Skepticism in an Audit of Financial Statements*, a new question-and-answer (Q&A) publication that re-emphasizes to auditors the importance of an attitude of professional skepticism when performing their role. Albeit non-authoritative, the publication is a useful summary and reminder of the auditor's need for professional skepticism.

From the Regulators

Reminder for all PCAOB registered firms

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

The U.S. Foreign Corrupt Practices Act (FCPA)

How well do you know the ins and outs of the U.S. law that prohibits U.S. citizens and organizations from paying, or offering to pay, foreign government officials to land or retain business? Take this FCPAct quiz to find out. Recent, more rigorous enforcement of the FCPA, combined with growth of U.S. businesses in emerging markets, is expanding the role CPAs play in fighting corruption and assisting companies with compliance efforts.

[Journal of Accountancy](#).

Headlines from around the world

Accounting Standards Board (ASB) in UK plans to overhaul accounting standards – FRED 46-48

The UK Accounting Standards Board (ASB) has published a revised proposal on the future of financial reporting in the UK. Under the latest ED, most unlisted companies not eligible for small company treatment (see next paragraph) will fall under new standards that, while based on IFRS for SME, contain significant modifications to

make the new standards somewhat more like IFRS. That said, the new standards are expected to run some 250 pages, which is similar to IFRS for SME, compared to UK GAAP's 2,300 pages.

Under the latest ASB's financial reporting proposal, things remain unchanged for listed companies which are still required to report under IFRS and for small companies which will still report under financial reporting standard for smaller entities (FRSSE), unless EU accounting directive changes with different requirements come into effect.

Study finds auditor's report is misunderstood, i.e. not read

The paper was published in December in *Accounting Horizons*, a journal of the American Accounting Association. Mock's co-authors were Glen L. Gary, a professor at California State University, Northridge, Paul J. Coram, an associate professor at the University of Melbourne in Australia, and Jerry L. Turner, a professor at Texas Christian University.

The researchers found from their interviews with the focus groups that the auditor's report is frequently considered to be just boilerplate text and not read. However, users do look to see if the report includes an unqualified audit opinion and whether a Big Four audit firm conducted the audit.

The study also found that the concepts of "level of assurance," "reasonable assurance" and "high level of assurance" are not well understood by many users of the auditor reports. If the report doesn't mention fraud, users believe auditors tested for it thoroughly, even though they are not required to do so. Most users believe the modern PCAOB audit, with its explicit requirement for an internal control opinion, is superior to audits conducted using prior AICPA audit standards.

Suggestions and challenges for improving the auditor's report include having the auditor's signature in the report, saying something explicit about fraud in the report, and adding granularity to the report, such as a grading scheme, instead of merely a pass/fail opinion.

Editor's note: Given the basic finding that the report is frequently not read, it is hard to see the point of the suggestions that the report be reformatted and/or more detailed.

Dubai and PCAOB enter into agreement to share data

The Dubai Financial Services Authority (DFSA) recently entered into a Statement of Protocol with the Public Company Accounting Oversight Board (PCAOB) in the US. The agreement facilitates the sharing of data between the two agencies.

President Obama's 2013 budget proposes LIFO repeal

The 2013 budget proposal includes the repeal of the LIFO method of accounting for inventories. This would remove an impediment to the implementation of IFRS in the United States and generate \$73 billion in revenue over 10 years. Under the proposal, LIFO would be unavailable after 2013. Of course, the budget as proposed has zero chance of being adopted by the U.S. Congress, but individual provisions are another matter.

Micro-entities exempt from EU reporting rules

The EU parliament has voted to exempt micro-entities from the EU's financial reporting requirements, which will enable member states to individually decide what reporting rules to apply for small businesses.

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
 - 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
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