

# Insights

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## Accounting

### **FASB Considers Deferral of Statement No. 157**

Currently, there is much discussion about the implementation of FASB Statement No. 157, *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. Although this Statement does not require any new fair value measurements, it changes the methods used to estimate fair value and expands disclosures about estimates of fair value. On October 17, 2007, the Financial Accounting Standards Board (FASB) discussed a delay in the effective date of FASB Statement No. 157 for one year. Constituents had expressed concern over their ability to resolve various implementation issues and comply with the requirements of Statement No. 157. The Board decided against a wholesale deferral of the Standard, but requested that the FASB staff evaluate alternatives for deferring the Standard for certain companies or instruments. Possible alternatives discussed at the meeting included deferring the Standard based upon size of the entity, type of instrument (i.e., non-financial instruments only), and for non-public companies.

Any recommendation for deferral presented by the FASB staff is likely to include a requirement that an entity which has not adopted Statement No. 157 provide additional disclosures for interim and annual periods. The FASB staff was also requested to prepare and present significant implementation issues for discussion by the Board at future meetings.

### **SOP 07-1 Deferred Indefinitely**

On October 17, 2007, the Financial Accounting Standards Board (FASB) decided to indefinitely defer the effective date of AICPA Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide, "Investment Companies," and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*. Also, the FASB decided that early adoption of SOP 07-1 should be prohibited. SOP 07-1 was effective for fiscal years beginning on or after December 15, 2007, but this effective date was deferred to enable the FASB staff to address certain implementation issues.

SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies* (the Guide). For those entities that are investment companies under SOP 07-1, the SOP also provides guidance for determining whether the specialized industry accounting principles of the Guide (investment company accounting) should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. In addition, the SOP includes certain disclosure requirements for parent companies and equity method investors in investment companies that retain investment company accounting in the parent company's consolidated financial statements or the financial statements of an equity method investor.

## Auditing

### Treasury Advisory Committee Meets

The Treasury Advisory Committee on the Auditing Profession was appointed by U.S. Treasury Secretary Henry M. Paulson, Jr. to examine the auditing industry's concentration, financial soundness, audit quality, and employee retention so as to make recommendations for strengthening the auditing profession. The Committee held its inaugural meeting on October 15 and began to identify issues that audit firms face today. Issues discussed included:

- Finding experienced accountants.
- The need to increase competition among audit firms. Currently the industry is dominated by the four largest firms, which audit about 80 percent of all U.S. public companies.
- Liability risks in the face of lawsuits by investors and companies.
- Difficulty getting insurance because of the liability risks.

These issues, among others, will continue to be discussed by the committee, which hopes to make its recommendations by next summer.

## SEC

### SEC Reviews Executive Compensation Disclosures

In 2006, the SEC issued revised rules relating to executive compensation and other related disclosures. In 2007, the SEC undertook a project to review the proxy statement disclosures made by 350 public companies to evaluate compliance with the revised rules and to provide guidance on how those companies could improve their disclosure. Recently, the SEC staff published a report discussing the principal themes that emerged from its initial review:

- The Compensation Discussion and Analysis needs to be focused on how and why a company arrives at specific executive compensation decisions and policies. This does not mean that disclosure needs to be longer or more technical. The focus should be on helping the reader understand the basis and the context for granting different types and amounts of executive compensation.
- Because the revised rules require disclosure of a lot of information, the manner of presentation is important. Registrants are encouraged to use plain English to provide more clear executive compensation disclosure. Also, registrants should organize the disclosures in tabular or graphical format to help the reader understand the information.

The SEC's report also details the recurring comments provided to companies as a result of the SEC's review. Registrants are encouraged to review their executive compensation disclosures and to prepare future disclosures consistent with the guidance in the SEC's report. The report is available in full at <http://www.sec.gov/divisions/corpfin/guidance/execcompdisclosure.htm>.

### Guidance Proposed for Auditing Internal Control in Smaller Companies

The Public Company Accounting Oversight Board (PCAOB) has published for comment staff guidance on how auditors can apply Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, to audits of smaller, less complex public companies. The guidance demonstrates how auditors can apply the principles described in the standard and provides examples of approaches to particular auditing issues that might arise in audits of smaller, less complex companies. Topics discussed in the staff guidance include: entity-level controls, risk of management override, segregation of duties and alternative

controls, information technology controls, financial reporting competencies, and testing controls with less formal documentation.

*Preliminary Staff Views - An Audit of Internal Control That Is Integrated with An Audit of Financial Statements: Guidance for Auditors of Smaller Public Companies* is available for comment until December 17, 2007 at [http://www.pcaobus.org/Standards/Standards\\_and\\_Related\\_Rules/AS5/Guidance.pdf](http://www.pcaobus.org/Standards/Standards_and_Related_Rules/AS5/Guidance.pdf).

### **Standing Advisory Group Meeting**

The Public Company Accounting Oversight Board (PCAOB) held a Standing Advisory Group (SAG) meeting on October 18, 2007 in Washington, DC. Leroy Dennis, a partner in the Minneapolis office of McGladrey & Pullen, LLP, is a member of the Standing Advisory Group, which is composed of approximately 30 people representing the auditing profession, public companies, investors and others.

The SAG concluded that a high priority for the PCAOB will be to address the potential audit implications of the SEC's proposed rules and concept release regarding the use of International Financial Reporting Standards (IFRS). These proposed rules would allow foreign private issuers to file with the SEC financial statements prepared in accordance with IFRS, as published by the International Accounting Standards Board (IASB), without a reconciliation to U.S. generally accepted accounting principles. The SEC's concept release seeks comment on whether U.S. issuers should be allowed to file financial statements prepared in accordance with IFRS, as published by the IASB.

The advisory group also discussed the Board's current standards-setting priorities, which include:

- Risk assessment, including fraud
- Fair value
- Engagement quality review
- Use of specialists
- Related parties
- Confirmations
- Action plan for complete review of the interim standards

The agenda and related briefing papers for the SAG meeting can be found in full at [http://www.pcaobus.org/News\\_and\\_Events/Events/2007/10-18.aspx](http://www.pcaobus.org/News_and_Events/Events/2007/10-18.aspx).

## **International**

### **IASB Proposes Amendments to 25 IFRS**

The International Accounting Standards Board (IASB) has published for comment an exposure draft of proposed amendments to 25 International Financial Reporting Standards (IFRS). The proposals include a restructuring of IFRS 1, *First-time Adoption of International Financial Reporting Standards*, to remove redundant transitional provisions. Other changes reflect clarification of meanings and removal of unintended inconsistencies between standards. The effective date for the proposed amendments, if confirmed, would be for annual periods beginning on or after January 1, 2009. The exposure draft will be available for comment until January 11, 2008 at <http://www.iasb.org/Home.htm>.

## Proposed Standards Regarding Confirmations and Use of Expert

The International Auditing and Assurance Standards Board has issued two proposed International Standards on Auditing (ISAs):

- Proposed ISA 505 (Revised and Redrafted), *External Confirmations*, provides guidance regarding the effective performance of external confirmation procedures when the auditor determines that such procedures are an appropriate response to an assessed risk of material misstatement. Recent experience has indicated that external confirmations may not always be as reliable as expected as audit evidence, giving rise to requests for more rigorous requirements governing the auditor's use of external confirmations.
- Proposed ISA 620 (Revised and Redrafted), *Using the Work of an Auditor's Expert*, provides guidance regarding the auditor's use of the work of a person or organization possessing expertise in a field other than accounting or auditing, employed or engaged by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. The proposal emphasizes the need for the auditor to evaluate the expert's objectivity, and to establish a proper understanding regarding the expert's responsibilities for the purposes of the audit.

The exposure drafts are available for comment until February 15, 2008 at <http://www.ifac.org/Guidance/EXD-Outstanding.php>.

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