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## Regulators Discuss Accounting and Auditing Developments at Annual AICPA Conference

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The American Institute of Certified Public Accountants' annual conference on SEC and PCAOB reporting developments is always a fertile source of information about current regulatory issues affecting audit committees, auditors and issuers. The major topics discussed at this year's conference, held on December 8-10, included:

- *Demand for Assurance Services.* Echoing themes from prior conferences, [PCAOB Chair James Doty](#) noted that audit practices have shrunk in comparison to audit firms' other client services. He said that, if present trends continue, within 10 years audits may yield less than 20% of the revenue of the global accounting firm networks. He suggested that the audit profession's challenge is to generate "demand pull" for additional assurance services. This requires "attending to the public's desire for confidence that the audit function is the watchdog the public expects it to be. The public needs to hear auditors bark when there's a problem." [PCAOB Director of Registration and Inspections Helen Munter](#) also expressed concerns about the effect of firms' efforts to boost profits, "including expanding non-audit and related services and outsourcing audit work to off-shore locations."
- *Audit Committee Disclosures.* [SEC Chief Accountant James Schnurr](#) noted SEC Chair Mary Jo White's initiative to examine the existing audit committee report to seek ways to make it more useful to investors. Mr. Schnurr discussed the developments that have led to consideration of enhanced audit committee disclosures, but did not identify any specific proposals or lay out a timetable for action.
- *IFRS.* Mr. Schnurr made news with his remarks on implementation of International Financial Reporting Standards in the United States. Consistent with prior comments by SEC commissioners and staff, Mr. Schnurr observed that "US constituents generally are not supportive of full adoption [of IFRS] for a variety of reasons, including legal issues and general cost-benefit concerns...." Mr. Schnurr floated the idea that domestic issuers might be permitted to provide IFRS-based financial information in addition to US GAAP financial statements. He noted that domestic issuers may currently be dissuaded from doing so, because current SEC rules consider this information to be a "non-GAAP" financial measure. He asked, "[S]hould it be thought of differently?" He indicated that permitting voluntary provision of IFRS-based information would allow issuers who do not believe the

information would be useful to investors to avoid the implementation costs of IFRS conversion. Mr. Schnurr stated that his remarks were "a starting point" for consideration in the coming months of alternatives for further incorporation of IFRS.

- *Auditor Independence.* SEC Deputy Chief Accountant Brian Croteau reiterated comments he made at the 2013 AICPA conference about the importance of auditor independence. He again emphasized the importance of management and audit committees having appropriate policies and procedures in place to evaluate non-audit services provided by a company's auditor. This includes "monitoring the provision of non-audit services for the risk of 'scope creep' that could result in a service becoming impermissible and impairing the auditor's independence." PCAOB Director of Enforcement Claudius Modesti reported that independence was a high priority for the PCAOB's enforcement program, particularly "as audit firms' business models continue to evolve into large multidisciplinary platforms, involving new lines of advisory and consulting businesses unrelated to the audit."
- *PCAOB Standard-Setting Activities.* Members of the SEC's Office of the Chief Accountant expressed their dissatisfaction with the pace and focus of standard-setting by the PCAOB. SEC Chief Accountant Schnurr, echoed by Deputy Chief Accountant Croteau, noted that "some of the most important projects to update auditing and quality control standards that are on the PCAOB's agenda simply have been moving too slowly" and indicated that he is working with PCAOB Chair Doty to improve the standard setting process. Mr. Doty committed to identify efficiencies in the rulemaking process, while also stressing the importance of considering the economic impact of rulemaking and the need for public input.
- *Internal Control Over Financial Reporting.* Deputy Chief Accountant Croteau renewed comments he had made at the 2013 conference questioning whether material weaknesses in internal control over financial reporting were being properly identified and disclosed. At that time, he had observed that "it was 'surprisingly rare' to see management identify a material weakness in the absence of a material misstatement." He reported that "based upon our cumulative efforts this year, I continue to question whether material weaknesses are being properly identified, evaluated, and disclosed." According to Mr. Croteau, "our efforts throughout the SEC pertaining to the ICFR requirements are ongoing, coordinated, and increasingly integrated into our routine consultation, disclosure review and enforcement efforts." PCAOB Inspections Director Munter, meanwhile, noted that the PCAOB's inspection staff continues to observe significant auditing practice issues related to ICFR audits.