

Insights

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Accounting

PCFRC Meets

The Private Company Financial Reporting Committee (PCFRC) met on June 19, 2008 in Atlanta, Georgia. The meeting consisted primarily of two activities.

The first activity focused on recent developments in accounting standards. Among those developments, the PCFRC discussed seeking a one-year deferral of the effective date of the proposed FASB Statement, *Disclosure of Certain Loss Contingencies – an amendment of FASB Statements No. 5 and 141(R)*, for nonpublic entities. The proposed Statement would generally be effective for annual periods ending after December 15, 2008. Accordingly, all entities with a calendar year end would be required to adopt the proposed Statement beginning with years ending December 31, 2008. The proposed Statement will significantly expand the disclosures required for contingencies and will include certain contingencies in the scope of those disclosures that were previously not included under Statement No. 5. The PCFRC believes the one-year deferral is necessary so as to raise the level of awareness of the scope and magnitude of the required disclosures by preparers, accountants, and many lawyers serving nonpublic entities. There was also a general discussion about EITF Issue No. 07-05, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock". That Issue will generally result in many private issuers of debt with warrants attached being required to report those warrants as liabilities rather than in owners' equity. The PCFRC was not asked to take any action other than to take every opportunity to alert practitioners and preparers of the existence of the EITF Issue and its possible effect.

In anticipation of the eventual likelihood of the United States adopting international financial reporting standards (IFRS), for its second activity the PCFRC held an educational session on the similarities and differences between U.S. generally accepted accounting standards and IFRS. The PCFRC will continue to monitor developments in this area and based on those developments assess what further efforts should be taken for and on behalf of nonpublic entities.

The next meeting of the PCFRC is scheduled to be held in Boston, Massachusetts on September 18 and 19, 2008.

Auditing

Standards Proposed Regarding Internal Control Over Financial Reporting

The AICPA Auditing Standards Board (ASB) has proposed a Statement on Standards for Attestation Engagements (SSAE), *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. This Standard is being proposed to converge the standard used for reporting on a nonissuer's internal control over financial reporting with that used for reporting on an issuer's internal control over financial reporting - Public Company Accounting Oversight

Board Auditing Standard (AS) No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. The proposed SSAE would supersede AT Section 501, *Reporting on an Entity's Internal Control Over Financial Reporting*. Among other provisions, the proposed SSAE:

- Revises the definitions of the terms *significant deficiency* and *material weakness* to conform with the definitions in AS 5.
- Discusses how to identify significant accounts and disclosures and their relevant assertions.
- Describes how to determine the likely sources of potential misstatements within a given significant account or disclosure.
- Introduces the top-down approach for identifying the most important controls to test.
- Incorporates the auditor's fraud risk assessment into the planning process for the examination of internal control and provides guidance on the types of controls used to identify and prevent material financial statement misstatements resulting from fraud.
- Addresses the following special topics:
 - How an entity's use of a service organization affects the examination of internal control;
 - The use of a benchmarking strategy for entirely automated application controls; and
 - Integrating in the examination of internal control the results of any additional tests of controls performed to express an opinion on the financial statements.

If finalized, the proposed SSAE would be effective for integrated audits for dates or periods ending on or after December 15, 2008. The proposed SSAE is available for comment until August 12, 2008 at http://www.aicpa.org/download/auditstd/Final_AT_501_June_12_2008.pdf.

The ASB also has proposed a Statement on Auditing Standards (SAS), *Communicating Internal Control Related Matters Identified in an Audit*, which would conform the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies in AU Section 325, *Communicating Internal Control Related Matters Identified in an Audit*, with the definitions and guidance in the proposed SSAE. If finalized, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2009. The proposed SAS is available for comment until August 12, 2008 at http://www.aicpa.org/download/auditstd/Final_AU_325_June_12_2008.pdf.

SEC

SEC Delays SOX 404 Audit Requirement for Smaller Reporting Companies

The SEC has approved a one-year delay in the requirement for an audit of internal controls over financial reporting in accordance with Section 404(b) of the Sarbanes-Oxley Act (SOX) for smaller public companies (i.e., those that are not required to file annual and quarterly reports on an accelerated basis). With this extension, the auditor's attestation report on internal control over financial reporting will be required when a smaller public company (i.e., non-accelerated filer) files an annual report for a fiscal year ending on or after December 15, 2009. It should be noted that this one-year grace period does **not** relieve smaller public companies of the obligation to provide management's report on internal control over financial reporting for annual reports for fiscal years ending on or after December 15, 2007.

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