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Editorial

We are pleased to bring to you our quarterly newsletter covering the latest developments in financial reporting and other regulatory updates.

In his maiden Budget speech, the Finance Minister had indicated last year that the Indian Accounting Standards (Ind-AS) converged with IFRS was to be to be adopted mandatorily beginning FY 2016-17 and voluntarily from FY 2015-16. The Ministry of Corporate Affairs (MCA) has now issued a press release on 2 January 2015 announcing a revised roadmap for the implementation of Ind-AS. The roadmap provides a phase-wise approach, primarily based on a company's net worth beginning 1 April 2016. Consistent with the Finance Minister's speech, the roadmap also allows voluntary adoption of Ind-AS.

The MCA's long-awaited revised roadmap is a welcome New Year gift, resolving the uncertainty surrounding the timing of Ind-AS implementation in India. In this newsletter, we have provided an overview of the revised roadmap for Ind-AS implementation along with our thoughts and next steps.

We also discuss the impact of the 12 draft Income Computation and Disclosure Standards (ICDS) issued by the CBDT's committee on 9 January 2015 for public comments.

The Companies Act, 2013 has introduced requirements for the board of directors to implement internal financial controls (IFC) and also to ensure that such controls are adequate and operate effectively. This is required to be specifically commented upon in their board report. Similarly, auditors are also required to report on whether the company has an adequate IFC system in place including on the operating effectiveness of such controls. In this context, we discuss the key provisions of the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India in November 2014. We also juxtapose this with similar requirements of the Sarbanes Oxley Act in the US and discuss the next steps for entity's management.

In recent times, there has been an increasing trend to outsource functions that may be significant to an organisation's operations e.g. human resources and payroll, IT applications, finance and accounting, customer-related services such as contact centre services, etc. As a result, entities have found that they have also transferred the performance of many of their key controls to third-party service organisations. We discuss matters that are relevant for user entities in context of their responsibility for maintaining an effective IFC when evaluating controls in respect of functions at their service organisations.

This edition also attempts to keep you informed of the key provisions of the new US GAAP Update No 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures. One of the significant changes being that management will now have to make a going assessment for a period of up to one year after the date when the financial statements are issued (or available to be issued) as compared to the date of the financial statements which was done until now. We also discuss differences in this area under IFRS and Indian GAAP.

Finally, we have also discussed other regulatory updates globally and in India.

We hope you find this newsletter informative and help us remain connected with you in a meaningful manner.

We look forward to your feedback at pwc.updates@in.pwc.com

Ind-AS implementation: A step closer

The Ministry of Corporate Affairs (MCA), in a press release issued on 2 January 2015, announced its long-awaited roadmap for implementing the Indian Accounting Standards (Ind-AS). Its revised plan for the adoption of Ind-AS converged with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) has resolved the uncertainty surrounding the execution timeline of Ind-AS in India.

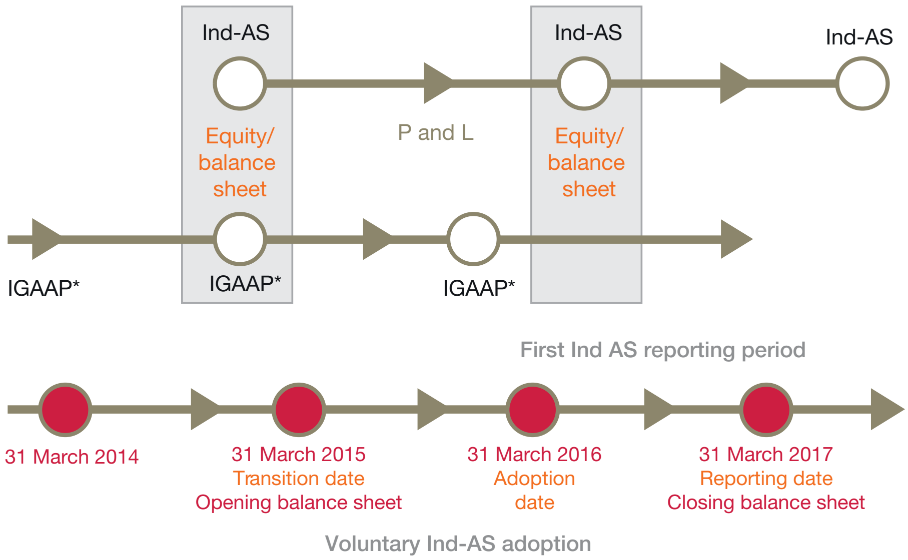
The implementation of the new accounting standards will be carried out in two phases, based primarily on a company's net worth. It is now mandatory for companies covered in the first phase, to apply the Ind-AS for accounting periods beginning 1 April 2016, or thereafter. Companies covered in the second phase are obligated to apply the Ind-AS for accounting periods beginning 1 April 2017, or thereafter.

Phase 1: 1 April 2016 (note 1)	Phase 2: 1 April 2017 (note 2)
Listed companies with a net worth of 500 crore INR or more (note 3)	Listed companies with a net worth of less than 500 crore INR (note 3)
Unlisted companies with a net worth of 500 crore INR or more	Unlisted companies with a net worth of 250 crore INR or more but less than 500 crore INR and not covered in any of the other categories
Holding, subsidiary, joint venture or associate companies of companies covered above (note 4)	Holding, subsidiary, joint venture or associate companies of companies covered above (note 4)

The notes are explained as follows:

1. Comparative information required for the period ending 31 March 2016, or thereafter
2. Comparative information required for the period ending 31 March 2017, or thereafter
3. Includes companies that are in the process of listing
4. The roadmap does not mention the net worth criteria for holding, subsidiary, joint venture or associate companies. It appears that even small-sized companies in this category will get covered.

Snapshot of adoption timelines



*IGAAP = Indian GAAP

This phased implementation is a well-thought approach that not only gives the management enough time to prepare for Ind-AS adoption, but also allows smaller firms to learn from the experiences of the larger ones.

The roadmap also lets companies to voluntarily adopt the Ind-AS from accounting periods beginning on or after 1 April 2015. Companies choosing to adopt the Ind-AS, will need to provide comparative information for the period ending 31 March 2015, or thereafter. The roadmap does not lay any restrictions on the companies eligible for the voluntary adoption. However, it specifies that once a company opts to follow Ind-AS, it is obligated to follow it for all its subsequent financial statements.

The roadmap excludes banks, insurance companies, non-banking finance companies (NBFC's) and companies whose securities are listed or are in the process of listing on SME exchanges. These companies and others, which are not covered in the roadmap, shall continue to apply the existing accounting standards prescribed in the Annexure to the Companies (Accounting Standards) Rules, 2006.

Accordingly, India will continue with the two sets of accounting standards–Ind-AS and the existing accounting standards prescribed in the Annexure to the Companies (Accounting Standards) Rules, 2006 (Indian GAAP), which may gradually align with Ind-AS.

Clarifications

The roadmap has raised a few queries that still need to be addressed:

- Will Ind-AS apply to standalone or consolidated financial statements?
- Will Ind-AS also apply to the quarterly financial results in the first year of its implementation (June 30, 2016 quarter)?
- The date and manner of the computation of net worth
- Applicability of Ind-AS in the consolidated financial statements of a holding company with an insurance company or a NBFC as a group company (since the press release specifically excludes banking, insurance and NBFCs)
- Will the annual or quarterly financial statements of the comparative period require audit or review by the company's auditors?
- Will companies already of preparing financial statements, as per the IFRS issued by IASB, be given an option to continue with the same?

- Will some of the significant Ind-AS such as revenue (Ind-AS 115) and financial instruments (Ind AS 109) have an effective date even before rest of the world? It is important to note that these two specific Ind-AS have wide-reaching implications.

Hopefully, the detailed notification of the revised roadmap will address these questions and also offer guidance as the Ind-AS get notified.

Income computation and disclosure standards (ICDS)

While announcing the Ind-AS implementation in his maiden Budget speech last year, Finance Minister Arun Jaitley also said that the standards for the computation of tax would be notified separately. In this regard, on 9 January 2015, the Ministry of Finance issued a new draft of 12 income computation and disclosure standards (ICDS) for public comments.

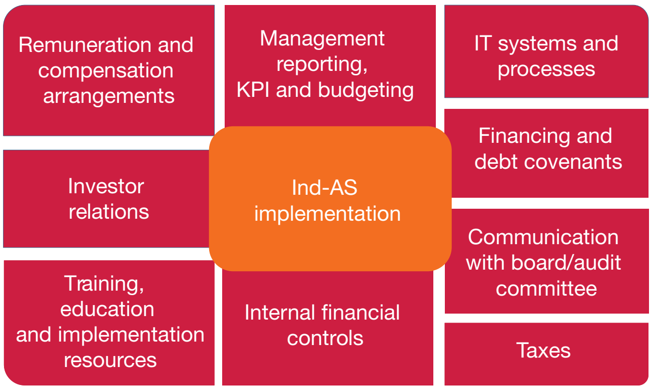
This is indeed a positive sign, considering that within just six months of the finance minister's Budget speech, development has taken place in both areas of implementation of Ind AS and notification of tax accounting standards. The issuance of the 12 draft ICDS for public comments is timely, particularly in the context of the revised roadmap of Ind-AS adoption. One of the reasons for the deferment of Ind-AS the last time was concerns expressed regarding its potential impact on the computation of taxable income. This is an excellent opportunity for all stakeholders to provide suggestions and comments before 8 February, 2015, keeping in mind the potential of impact Ind-AS.

In the context of ICDS, companies will also have to carefully evaluate its impact on their current and deferred tax positions, in view of the significant changes proposed in the areas of service transactions, construction contracts, leases, borrowing costs, contingent assets, etc. Though the ICDS have prescribed transition provisions with effect from April 1, 2015, the implications on minimum alternative taxes may still need to be clarified.

Implications for companies

Implementing Ind-AS is likely to impact key performance metrics requiring thoughtful communication with the board of directors, shareholders and other stakeholders. Internally, its implementation can have a wide-ranging impact on a company's processes, IT systems, internal financial controls, income taxes, remuneration policies and also contractual arrangements.

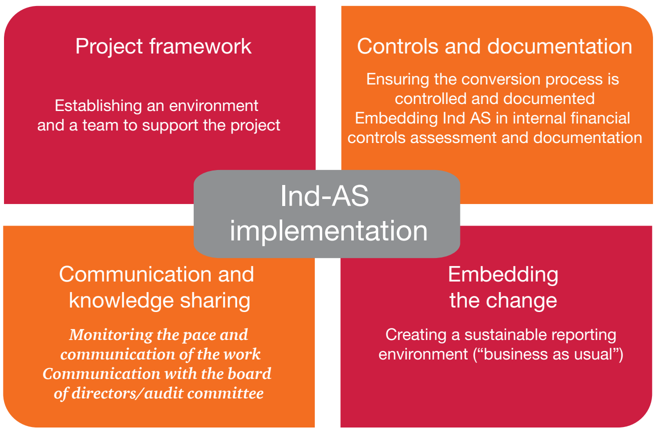
Impact across the board



Next steps

Successful Ind-AS implementation will require a thorough strategic assessment, a robust step-by-step plan, alignment of resources and training, strong project management and smooth integration of various changes into normal business operations. At the end, Ind-AS implementation needs to establish sustainable processes to continue to produce meaningful information long after the exercise is completed. Pending detailed notification of the revised roadmap and the final Ind-AS, companies may want to start planning to manage this big accounting change.

Managing the change



New paradigm for reporting on internal financial controls

One of the significant implications of the new Companies Act, 2013, is the reporting responsibilities of the directors and auditors with regard to internal financial controls. In case of the listed companies, the directors are responsible for ***laying down the internal financial controls to be followed by the company and also to ensure that such controls are adequate and operating effectively.*** In addition, directors are required to specifically include a statement regarding this in their board report.

The auditors, on their part, are required to report ***whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.*** Until now, reporting on the internal controls by auditors was restricted to a few select areas mandated under the Companies (Auditor's Report) Order, 2003 (as amended). However, the new Companies Act, 2013, significantly expanded this requirement which is now not restricted to the reporting by auditors of listed companies only, but applies to all companies.

This definition appears to be all-encompassing and does not restrict itself to internal financial controls impacting financial reporting. This apprehension has been partially alleviated by the MCA, by specifying in the rules relating to the board's report (Rule 8(5) (viii) of the Companies (Accounts) Rules, 2014), that the adequacy of internal financial controls is with reference to the financial statements, i.e. internal controls over financial reporting (ICFR). However, such a clarification has not been specified by the MCA in the case of reporting by auditors and is awaited.

In need of a framework

At present, there are no parameters or guidelines governing the evaluation of internal controls. This is critical since the company's management require benchmarks and guidance to evaluate and implement an effective ICFR.

In the US, the concept of reporting on ICFR started right after the enactment of the federal law–Sarbanes–Oxley Act, 2002 (SOX). Under section 404 of the SOX Act, the management is required to issue a report on internal controls as part of its annual report. This report must affirm "the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting." This report also needs to specifically identify the framework used by the management to evaluate the effectiveness of the company's ICFR. The external auditor is also required to report on the adequacy of the company's ICFR.

The Securities and Exchange Commission (SEC), in its guidelines, does not mandate the use of any specific framework. It requires the use of a recognised control framework established by a body or group which has followed due process procedures, including the broad distribution of the framework for public comments. It further lays down certain criteria for a fitting framework. It states that the 'COSO framework' issued by the Committee of Sponsoring Organisations of the Treadway Commission in 1992, is a suitable framework (the COSO framework underwent change in 2013 which superseded the earlier 1992 version). Turnbull (issued by the Institute of Chartered Accountants in England and Wales) and CoCo (Criteria on Control by the Canadian Institute of Chartered Accountants) are some of the widely accepted frameworks with respect to internal control.

Similarly, the Public Company Accounting Oversight Board (PCAOB) issued Auditing Standard No 5: An audit of internal control over financial reporting, integrated with an audit of financial statements. This establishes the requirements and guides auditors engaged in performing the audit of the management's assessment of the effectiveness of internal control over financial reporting (audit of internal control over financial reporting) which is integrated with an audit of the financial statements.

Overview of internal financial control (IFC)

Who	What it means	What is required
Board to report on adequacy and operating effectiveness of IFC [Sec 134 (5)(e) & Schedule IV; Clause 49(I)(D)]	Policies and procedures adopted for ensuring orderly and efficient conduct of business	A demonstrable documented framework for internal financial controls
Audit Committee to evaluate IFC [Sec 177; Clause 49(III)(D)]	Safeguarding of assets	Documentation of controls that actually mitigate the risk of significant misstatements
KMP to design and maintain IFC	Prevention and detection of frauds and errors	Requisite accountability for financial reporting structure
Auditors to evaluate and report on adequacy and operating effectiveness of IFC [Sec 143 (3) & Sec 143(12)]	Accuracy and completeness of the accounting records	Fraud risks and controls at the process level may not be understood clearly and may not be demonstrable
	Timely preparation of reliable financial information	Testing of operating effectiveness of controls

Need to identify the scope

The company's management and the auditors are both vary about the broad definition of 'internal financial controls' included in the Act. The Act defines the phrase as "...policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information."

Current situation

As mentioned earlier, the MCA has not provided a framework for a company's management to follow. The Institute of Chartered Accountants of India (ICAI), on its part, had issued a 'guidance note' on audit of internal financial controls over financial reporting in November 2014. However, this ***was withdrawn on 12 December 2014 for reasons unknown***. This guidance note applies to auditors and is largely based on AS 5 issued by PCAOB with the primary distinction being the format of reporting.

Guidance note

The guidance note acknowledges some of the commonly applied international frameworks such as COSO, CoCo and Turnbull. It also refers to the guide to internal controls over financial reporting (ICFR) which was issued by the Committee of Internal Audit in 2007 (it is currently under revision).

Objectives of an auditor in an ICFR audit

The guidance note states that the auditor's objective in an audit of ICFR is to express an opinion on the effectiveness of the company's internal financial controls and is carried out along with an audit of the financial statements. Since a company's internal controls cannot be considered effective if one or more material weaknesses exist; to express an opinion, the auditor must plan and perform the audit to obtain sufficient and appropriate audit evidence to obtain reasonable assurance about whether material weakness exists as of date specified in the management's assessment.

Use of standards on auditing

The guidance note acknowledges the fact that the standards on auditing do no fully address the auditing requirements for reporting on internal financial controls. Nevertheless, it suggests that relevant portions of the standards on auditing need to be considered by the auditor when performing an audit of the internal financial controls. The guidance note provides supplementary procedures that need to be taken into account by the auditor in planning, performing and reporting in an audit of ICFR under the Companies Act, 2013.

Components and principles of internal control

The guidance note maps five components of internal controls laid in SA 315: Identifying and assessing the risk of material misstatement through understanding the entity and its environment, with 17 principles and provides detailed guidance. It further states that an effective system requires that the following:

- Each essential components and relevant principles must be present and functioning
- The essential components must operate together in an integrated manner

When the system of internal control is effectively put in place, the senior management and board of directors have reasonable assurance relative to the application within the entity structure. This helps the organisation to fulfil certain goals:

- Achieve effective and efficient operations when external events are considered unlikely to have a significant impact on the achievement of objectives or where the organisation can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level
- Understand the extent to which operations are managed effectively and efficiently when external events may have a significant impact on the achievement of objectives or where the organisation can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level
- Prepare and report in conformance with the applicable rules, regulations and standards or with the entity's specified reporting objectives
- Comply with applicable laws, rules, regulations and external standards.

The guidance note concludes that while internal controls provide 'reasonable assurance' of achieving the entity's objectives, there are inherent limitations which preclude the board and the management from having absolute assurance of the achievement of the entity's objectives. Therefore, internal control provides reasonable but not absolute assurance. Notwithstanding these limitations, the management should be aware of them when selecting, developing and deploying controls that minimise these restraints to the practicable extent.

Technical guidance on performing an audit of ICFR

The guidance note provides detailed procedures for planning and performing an audit of ICFR. It suggests that the auditor use a top-down approach to the ICFR audit to select the controls for testing. A top-down approach begins at the financial statement level and with the auditor's understanding of the overall risks. The auditor then focusses on entity-level controls and works down to significant accounts and disclosures and their relevant assertions. This approach directs the auditor's attention to accounts, disclosures and assertions that present a reasonable possibility of material misstatement to the financial statements and related disclosures. The auditor then verifies his or her understanding of the risks in the company's processes and selects for testing those controls that sufficiently address the assessed risk of misstatement to each relevant assertion. It is essential to note that the top-down approach only describes the auditor's sequential thought process in identifying risks and controls to test and not necessarily the order in which the auditor will perform the auditing procedures.

Evaluation of results

The guidance note defines the terms of deficiency, significant deficiency and material weakness.

These definitions are same as in AS 5 issued by PCAOB. Further, it states that the severity of a deficiency depends on the following conditions:

- Whether there is a reasonable possibility that the company's controls will fail to prevent or detect a misstatement of an account balance or disclosure
- The magnitude of the potential misstatement resulting from the deficiency or deficiencies

A deficiency in internal financial control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a deficiency or a combination of deficiencies, in internal financial control over financial reporting that is important enough to merit the attention of those charged with governance since there is a reasonable possibility that a misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designedso that, even if the control operates as designed, the control objective would not be met.

A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

*A **material weakness** is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.*

It is to be noted that a material weakness in ICFR may exist even when the financial statements are not materially misstated.

Communication with the management or those charged with governance

The guidance note requires that the auditor must communicate, in writing, to the management and those charged with governance, all material weaknesses and any deficiencies or a combination of deficiencies that are significant deficiencies identified during the audit.

The guidance note also recommends the auditor to consider and suitably adapt the requirements and principles of SA 260 Communication with those charged with governance and SA 265 Communicating deficiencies in internal control to those charged with governance and management.

Lastly, it states that when auditing ICFR, the auditor may become aware of fraud or possible illegal acts. In such circumstances, the auditor must define his or her responsibilities under the Companies Act, 2013, SA 240: The auditor's responsibilities relating to fraud in an audit of financial statements and SA 250: Consideration of laws and regulations in an audit of financial statements.

Forming an opinion

The auditor should form an opinion on the adequacy and operating effectiveness of ICFR by evaluating evidence obtained from all sources including the auditor's testing of controls, misstatements detected during the financial statement audit and any identified control deficiencies. Further, the auditor should also evaluate the disclosures made by the management and board of directors in the annual report. In this regard, the auditor needs to apply the requirements of SA 720: The Auditor's responsibility in relation to other information in documents containing audited financial statements.

The guidance note provides an option to the auditor to issue separate reports on the company's financial statements and on ICFR. Additionally, apart from an unmodified opinion, it also envisages that deficiencies individual or combined, result in one or more material weaknesses; the auditor must express a modified opinion (qualified or adverse). When there is restriction on the scope, the auditor can disclaim the opinion or withdraw it from the engagement.

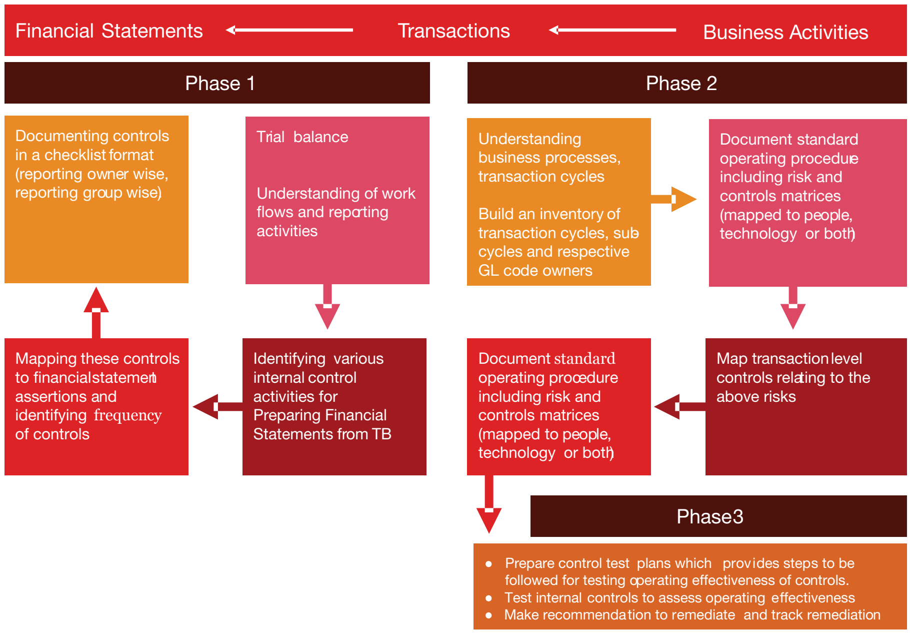
Implementation, guidance and illustrations

The guidance note further provides detailed implementation guidance on the procedures to be performed including reporting considerations. Further, it also provides an illustrative engagement letter, management representation letters and reports on ICFR.

The way forward

The guidance provided by the ICAI for auditors is quite comprehensive and helpful in addressing most of the aspects relating to an audit of ICFR. A revised guidance note is in the offing. However, company managements who have to first design and implement an effective ICFR by selecting a suitable internal control framework are still waiting for clarity and guidance. Managements must think ahead and shape the contours of its ICFR plan using the broad principles enumerated in the guidance note, COSO or other frameworks until the details are clarified by the MCA, ICAI, or other guidelines are introduced. This becomes even more important considering the proposed 1 April 2015, transition date for Ind-AS for certain companies, which will result in significant changes to the accounting systems.

An approach to internal financial controls



One of the significant differences between the guidance note and AS 5 issued by PCAOB is with respect to reporting. Where deficiencies, individual or combined, result in one or more material weaknesses; the auditor must express an adverse opinion on the company's ICFR. There is no option of a 'qualified' opinion under AS 5 unlike the guidance note.

Companies Act 2013: Impact on controls of outsourced processes

There has been a paradigm shift in reporting on the internal financial controls (IFC) implemented and operated by a listed company under the Companies Act, 2013. Section 134(5)(e) of the Companies Act puts the onus clearly on the board of directors to state in their Directors' Responsibilities Statement that they have laid down internal financial controls to be followed by the company and that such controls are adequate and were operating effectively.

For the purposes of this clause, the term 'internal financial controls' means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Although section 134(5)(e) is applicable to listed companies, section 143(3)(i) requires the auditor to state "*whether the company has an adequate internal financial controls system in place and the operating effectiveness of such controls*." This section does not distinguish between listed companies and others. Hence, every company will have to implement such internal financial controls that are adequate and operating effectively so that the auditors' can comply with the requirements of section 143(3)(i).

Outsourcing of processes

Outsourcing involves the contracting of the operations and responsibilities of specific business functions or processes to a third-party service provider–a service organisation. Business process outsourcing is typically categorised into back-office outsourcing, which includes internal business functions such as human resources and payroll or finance and accounting and front-office outsourcing, which includes customer-related services such as contact centre services.

Many companies outsource their IT processes such as the maintenance of financial application systems, underlying databases and infrastructure. There are significant benefits to businesses in the outsourcing of business and IT processes, such as the following:

- Focussing on core business competencies
- Cost control by transforming fixed costs into variable costs
- Increased efficiency of back-office transaction processing
- Fewer constraints by large capital expenditures on equipment that become outdated.

There is an increasing trend to outsource functions that may be significant to an organisation's operations. As a result, many enterprises have found that they have transferred the performance of many of their key controls to third-party service organisations. However, while the execution of these controls can be outsourced, the management's responsibility for maintaining an effective system of internal control cannot be outsourced.

Overall requirements on IFC

The management is required to implement adequate internal financial controls across all significant processes whether performed in-house or outsourced to a third-party service provider. Thus, while outsourcing business or IT processes, the management needs to ensure that key controls shall operate at the third-party service provider in the same manner or better than they are at the company's own locations.

In this regard, the management needs to ensure that their outsourcing contracts carry a clause to allow them to audit the key controls at the service providers or have a clause to obtain an appropriate third-party assurance report on controls operated at the service organisations which enables them to discharge their overall responsibilities for the adequacy of internal financial controls under the Companies Act.

SAE 3402 report: A user organisation perspective

The service organisation may obtain a third-party assurance report as per SAE 3402: Assurance Reports on Controls at a Service Organisation (SAE 3402) for the key controls that operate at their organisation. The report can be Type I or Type II.

- Type I report on the fairness of the description of controls and whether those controls were suitably designed-at a specific point in time (e.g. 30 June 2014)
- Type II report to not only include the service organisation's description of controls and whether they were suitably designed by the service organisation but also the detailed testing of the service organisation's controls over a minimum six-month period (e.g. 1 July 2014 to 31 December 2014)

In a Type I report, the service auditor will express an opinion and report the following:

- The service organisation's description of its system fairly presents its system that was designed and implemented as of a specific date.
- The controls related to the control objectives stated in the management's description of the service organisation's system were suitably designed to achieve them, also as of a specified date.

In a Type II report, the service auditor will express an opinion and report the following:

- The service organisation's description of its system fairly presents the service organisation's system that was designed and implemented throughout the specified period.
- The controls related to the control objectives stated in the management's description of the service organisation's system were suitably designed throughout the specified period to achieve those control objectives.
- The controls related to the control objectives stated in the management's description of the service organisation's system operated effectively throughout the specified period to achieve those control objectives.

Benefits to the user organisation

When the user organisations obtain a service auditor's report from their service organisation(s), they are able to get an understanding regarding the latter's controls and their effectiveness. When the user organisation receives a Type II report, it gives detailed description of the service organisation's controls and an independent auditor's opinion on the controls that were placed in operation, suitably designed, and operating effectively.

User organisations need to provide a service auditor's report to their auditors. This will greatly assist the user auditor in planning the audit of the user organisation's financial statements. Without a service auditor's report, the user organisation will likely need to send their auditors to the service organisation to perform their procedures, entailing additional costs.

Procedures to be performed by user organisation on SAE 3402 report

If the user organisation's management plans to obtain a service auditor's report to rely on it, they need to perform certain checks to ensure that the report serves their purpose in the overall assessment of their responsibilities under section 134(5)(e) of the Companies Act, 2013.

Verify the report scope

The user organisation needs to evaluate the relevant financial assertions identified above in comparison with the scope of the report. This includes reading the SAE 3402 report to understand the processes and procedures by which services are provided, including how transactions are initiated, authorised, recorded, processed, corrected and reported. The user organisation needs to verify that the report includes the technology platforms, applications, systems, IT and/or business processes, locations, or services that support the user organisation's specific financial transactions and assertions. A well-written SAE 3402 report not only clearly identifies the scope of what is included, but also what is not included within the report. If the report does not cover the areas or services provided that are relevant to the user organisation, the usefulness of the report may be limited. In this situation, the user organisation needs to consider the risk related to the areas not addressed in the scope and, depending on the risk, either identify and test the controls it uses to manage the service organisation's effectiveness or identify and test the relevant controls performed by the service organisation.

Determine whether it is Type 1 or Type 2 report

The user organisation needs to note whether the SAE 3402 report is a Type 1 report or a Type 2 report. For a Type 2 report, the service auditor provides an opinion on whether the service organisation's description 'fairly presents' the system that was designed and implemented, and whether the controls were suitably designed to achieve the control objectives, and the controls operated effectively during the specified period of time. Alternately, for a Type 1 report, the service auditor provides an opinion as to whether the service organisation's description 'fairly presents' the system that was designed and implemented and whether the controls were suitably designed to achieve the control objectives as on a specified date. Type 1 reports do not address the operating effectiveness of controls, nor do they provide an opinion throughout a period of time.

Due to the limited scope of the service auditor's opinion in a Type 1 report, a Type 2 report is preferred, unless the user organisation wants only to understand the nature of the controls at the service organisation and whether they are adequately designed. Additionally, a Type 2 report is necessary if the user auditor plans to use the report for reliance on internal controls or the report is to be used by the user organisation management or the user organisation's auditor for the assessment of internal controls over financial reporting.

Determine the period of coverage

The Type 2 report opinion clearly identifies the period of coverage. If the period of time is less than six months of the fiscal year, the user organisation will likely need to obtain an updated report or perform additional testing to complete its assessment of internal controls over financial reporting. Furthermore, if the period of coverage is not near the user organisation's year-end (i.e., within 90 days), it should consider additional testing of controls at the service organisation. To address the elapsed time between the end of the period of coverage and the user organisation's year-end, the user organisation needs to consider a representation letter (often referred to as a 'bridge letter') from the service provider stating whether the controls have significantly changed since the most recent SAE 3402 report, whether the management is aware of any design or operational control deficiencies during the interim period, or any other changes or matters that may affect the conclusions within the SAE 3402 report. If the controls have changed or if the service provider discloses control deficiencies, the user organisation needs to evaluate the impact of those changes and deficiencies and may choose to perform additional test procedures.

Evaluate the completeness of the control objectives

Although a service auditor's opinion includes an evaluation of whether the control objectives specified by the service organisation are reasonable under the circumstances (including whether they are complete), this judgement is made based on the service auditor's understanding of the needs of the user organisations. Because a particular user organisation's needs may vary from the service organisation's determination, the user entity needs to compare separately the control objectives to the financial statement assertions of the user organisation.

Some control objectives related to transaction processing, directly affect financial statement assertions. For example, the following control objective addresses the accuracy, existence,occurrence and rights,obligation assertion of purchases: Controls provide reasonable assurance that valid purchases are processed with accurate price and quantity.

Some control objectives, principally those related to IT general controls, indirectly affect financial statement assertions through applications supported in the environment. For example, an IT general control objective related to user management may state: Controls provide reasonable assurance that user access is granted or modified based on appropriate approval.

If a financial statement assertion is not addressed by the control objectives provided, the user organisation needs to consider whether controls at the user organisation provide reasonable assurance that the financial statement assertion is achieved. If no such controls are identified, the user organisation needs to discuss the assertion with the service organisation. The user organisation may request that the service organisation modify or add additional control objectives to address the missing assertion and request that the service organisation engage its service auditor to perform additional test procedures related to any new objectives at the service organisation. Alternately, the user organisation may request the service organisation to permit the user organisation's auditor to perform the necessary procedures at the service organisation.

If the service organisation does not agree to either of these solutions, the user organisation may need to design and implement its own controls to provide assurance that the financial statement assertion is achieved. This is why it is important for user organisations to include language within their service organisation contracts that provide user organisations with options to address their control assessment requirements.

Review the user control considerations specified in the report

An SAE 3402 report identifies the controls designed to achieve the control objectives, including the implementation of complementary user entity controls. While the specified controls need to address the risks that threaten the achievement of the control objective for most user organisations, individual user organisation needs may vary. As a result, user organisations need to consider the risks that may threaten the achievement of the control objectives from the perspective of the user organisation and consider whether the controls identified adequately address those risks. If the user organisation believes that any risks are not addressed by the service organisation's controls, the user entity needs to discuss those risks with the service organisation.

Evaluate the tests performed by the service auditor

The user organisation needs to evaluate whether the control objectives and the key controls identified to achieve the control objectives are appropriate and also review that the tests performed by the service auditor are sufficient to evaluate the effectiveness of the controls.

In determining the ability and appropriateness of the tests performed by the service auditor, the user organisation needs to assess the service auditor's professional competence and independence from the service organisation. Independent tests of controls by the service auditor provide more independence and objectivity than tests performed by internal audit on which the service auditor may rely.

Consider the results of the tests

SAE 3402 reports not only provide the description of the system but also of the tests performed and the results thereof which assists the user organisations to perform evaluations of the impact of control exceptions on their internal control over financial reporting. In evaluating the reported exceptions, the user organisation needs to consider the importance of the control in achieving the control objectives and the error rate reported. The service auditor will have mentioned compensating controls or mitigating factors which can reduce the impact of the control deficiency. In their evaluation, the user organisation needs to consider these compensating controls at the service organisation as also any other complementary user organisation controls to determine whether the exception will be considered as material weakness, significant deficiency or a mere control deficiency.

Use of the report to address internal control concerns other than internal control over financial reporting

SAE 3402 reports are intended to provide information to user entities to assist them in assessing their internal control over financial reporting. While there may be certain controls and control objectives that may be relevant to internal control as it relates to operations or compliance with laws and regulations, it is important for the user entity to remember that the control objectives, corresponding control activities identified to achieve the control objectives and tests of operating effectiveness are not designed to address nonfinancial reporting aspects of internal control. For example, an SAE 3402 report is not intended to address information and data privacy, business continuity, or regulatory compliance (other than internal controls over financial reporting). As such, the user entity should not use the SAE 3402 report to draw conclusions about the effectiveness of the controls in addressing these nonfinancial reporting aspects of internal control.

Intentional acts

The user auditor standards require the user auditor to enquire of the user organisation management whether the service organisation has reported to, or whether the user organisation is otherwise aware of, any fraud, noncompliance with laws and regulations, or uncorrected misstatements affecting the financial statements of the user organisation. As such, it becomes important that the user organisation periodically and proactively discusses any such instances with the service organisation in order to ascertain that relevant and timely information has been provided by the service organisation for its consideration. To the extent that such information is provided by the service organisation, the user organisation needs to evaluate the information, the potential breakdown in controls that occurred and the impact to its organisation.

Additionally, the user organisation may want to consider what, if any, changes have been made by the service organisation as a result of the event. As part of their procedures, user organisations will want to determine whether additional monitoring and supervision or specific onsite testing at the service organisation is warranted.

Summary and next steps

While the changes in the Companies Act 2013 are significant and will impact user organisations, service organisations and auditors, it is important that user organisations proactively look at their obligations as per section 134(5)(e) and take effective steps to address the same:

- Engaging with the user organisation auditor to discuss and align with their expectations of the requirements of the Companies Act on internal financial controls reporting
- Engaging with the service organisation and their auditor to understand the impact of the requirements of the Companies Act on the current approach for SAE 3402 report
- Reviewing and understanding the scope of the current SAE 3402 report and how it relates to user entity controls. If the scope of the report is not sufficient for user organisation purposes or could be improved, initiate scope discussions with the service organisation.
- Understanding the requirements and service provider obligations by reviewing service provider contracts and modifying contracts and service agreements as necessary
- Communicating impact to the stakeholders in the organisation e.g.finance, procurement, IT, legal, internal audit, risk management, compliance, vendor management, sales, etc.

Disclosure of uncertainties about an entity's ability to continue as a going concern

What's new?

Financial reporting under US GAAP assumes that a company will continue to operate as a going concern until its liquidation becomes imminent. This is commonly referred to as the going concern basis of accounting. When this happens, financial statements should no longer be prepared under the going concern basis of accounting, but rather under the liquidation basis in accordance with ASC 205-30, Presentation of financial statements-liquidation.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No 2014-15, Disclosure of uncertainties about an entity's ability to continue as a going concern, requires the management to assess a company's ability to continue as a going concern and to provide the related footnote disclosures in certain circumstances.

Before this new standard was introduced, the US GAAP offered minimal guidance pertaining to going concern, although US auditing standards prescribed the requirements relating to the auditor's consideration of an entity's ability to continue as a going concern.

Disclosures regarding going concern uncertainties are common in financial reporting today, but before the new standard was announced, the US GAAP offered little direction to when the management should start providing such disclosures (that is how significant must the uncertainty become to trigger the disclosures) or what information to disclose. The lack of management-specific guidance has led to diversity in practice. The new standard provides the management with direct guidance on going concern assessments and disclosures.

Under the new standard, disclosures are required when conditions (for example, recurring operating losses) give rise to substantial doubt about a company's ability to continue as a going concern within **one year from the financial statement issuance date.**

Key provisions

The key provisions of the new standard and its related impact are outlined below.

Key provisions	Impact
Assessment for each annual and interim reporting period For each annual and interim reporting period, the management must evaluate if there are conditions that give rise to substantial doubt within one year from the financial statement issuance date, and if it just so happens, provide related disclosures. Accordingly, SEC registrants with interim reporting requirements must assess going concern uncertainties quarterly. Non-public entities must assess going concern uncertainties annually, or more frequently, if they issue interim financial statements prepared under the US GAAP. The emergence of substantial doubt about a company's ability to continue as a going concern is the trigger for providing the footnote disclosure.	Companies need to implement processes and controls (or formalise existing ones) to assess risk, determine the level of analysis necessary, and perform the going concern assessment. Companies may be able to leverage their existing processes and controls used in assessing risks and developing forecasts.
Defines substantial doubt Auditing standards do not explicitly define substantial doubt. Under the new standard, substantial doubt exists when conditions and events, considered in the aggregate indicate it is 'probable' that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. The likelihood threshold of 'probable' is defined as "the future event or events are likely to occur," which is consistent with its current use in US GAAP, applicable to loss contingencies. Discussions at public meetings of the FASB attributed a likelihood range of approximately 70 to 80% when describing how the practice in the US interprets 'probable' with respect to loss contingencies. However, the assessment is not intended to rely on a formula-based likelihood calculation.	Management will have to consider all relevant qualitative and quantitative information and exercise judgment. The management should consider information about the following conditions, among others, as of the financial statement issuance date: • The company's current financial condition • Conditional and unconditional obligations due or anticipated in the next year • Funds necessary to maintain operations • Other conditions that could adversely affect the company's ability to meet its obligations in the next year (e.g. negative financial trends, default on loans, labour difficulties, significant litigation, etc.)
Sets a look-forward period of one year from the financial statement issuance date The auditing standards provide a shorter look-forward period of one year from the balance sheet date. Under the new standard, the management's assessment should be based on the relevant conditions that are 'known and reasonably knowable' at the issuance date, rather than at the balance sheet date. The term 'reasonably knowable' was introduced to emphasise that a company should make reasonable effort to identify conditions that it may not readily know, but ones that can be identified without undue cost and effort.	The assessment should consider the most current information available before the financial statements are issued, requiring companies to consider all relevant subsequent events after the balance sheet date.

Key provisions	Impact
Requires disclosures even when initially-identified substantial doubt is alleviated by the management's plans The auditing standards indicate that auditors should consider the adequacy of disclosures in these situations, but there are no specific disclosure requirements. Under the new standard, if conditions give rise to substantial doubt in the initial assessment, the standard requires the management to consider its plans and their mitigating impact. In doing so, the management should assess whether its plans to mitigate the adverse conditions, when implemented, will alleviate substantial doubt. The management's plans should be considered only to the extent that information available, as of the issuance date, indicates both of the following: • It is probable that the plans will be effectively implemented within the assessment period • It is probable that management's plans, when implemented, will mitigate the conditions that give rise to substantial doubt within the assessment period. Whether an initially-identified substantial doubt is alleviated or not will determine the nature of the required disclosures.	Consideration of the management's plans is another area which requires significant judgment. Generally, the management should consider the mitigating effect of its plans that have already been implemented as of the issuance date (for example, proceeds from debt refinanced prior to the issuance date, cash savings from successful cost-cutting efforts that are underway, or revenue expected from a backlog of existing customer orders). However, the management should not consider its plans that have not been fully implemented as of the issuance date (for example, debt that has not yet been refinanced, cost-cutting efforts that have not been initiated, or marketing efforts that have not yet resulted in customer orders) unless it is probable those plans will be successfully implemented, and if implemented, probable that the plans will mitigate the adverse conditions giving rise to substantial doubt.

Required disclosures

Disclosures are only required if conditions give rise to substantial doubt, whether or not the substantial doubt is alleviated by management's plans. No disclosures are required specific to going concern uncertainties if an assessment of the conditions does not give rise to substantial doubt.

If the management's plans succeed in alleviating substantial doubt, a company should disclose information that enables users of financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the footnotes).

- Principal conditions that initially gave rise to substantial doubt
- Management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations
- The management's plans that alleviated substantial doubt

If substantial doubt is not alleviated after considering the management's plans, disclosures should enable investors to understand the underlying conditions, and include the following course of action:

- A statement indicating that there is substantial doubt about the company's ability to continue as a going concern within one year after the issuance date
- The principal conditions that give rise to substantial doubt
- Management's evaluation of the significance of those conditions in relation to the company's ability to meet its obligations
- Management plans that are intended to mitigate the adverse conditions

Applicability

The new standard applies to all companies and is effective for the annual period ending 15 December, 2016, and all annual and interim periods thereafter. Earlier application is permitted.

US auditing standards

The PCAOB and the AICPA's ASBs both have projects on their agendas to review and potentially modify existing auditing standards related to going concern. The PCAOB has indicated in a recent staff audit practice alert[1] that the auditor's evaluation of whether substantial doubt exists is qualitative, based on the relevant events and conditions and other considerations set forth in the auditing standards. Accordingly, a determination that no disclosure is required under the new standard is not conclusive as to whether an explanatory paragraph is required in the auditor's report. Before initial adoption, companies and their auditors should discuss the interaction of the new accounting standards with the previous auditing standards.

What next?

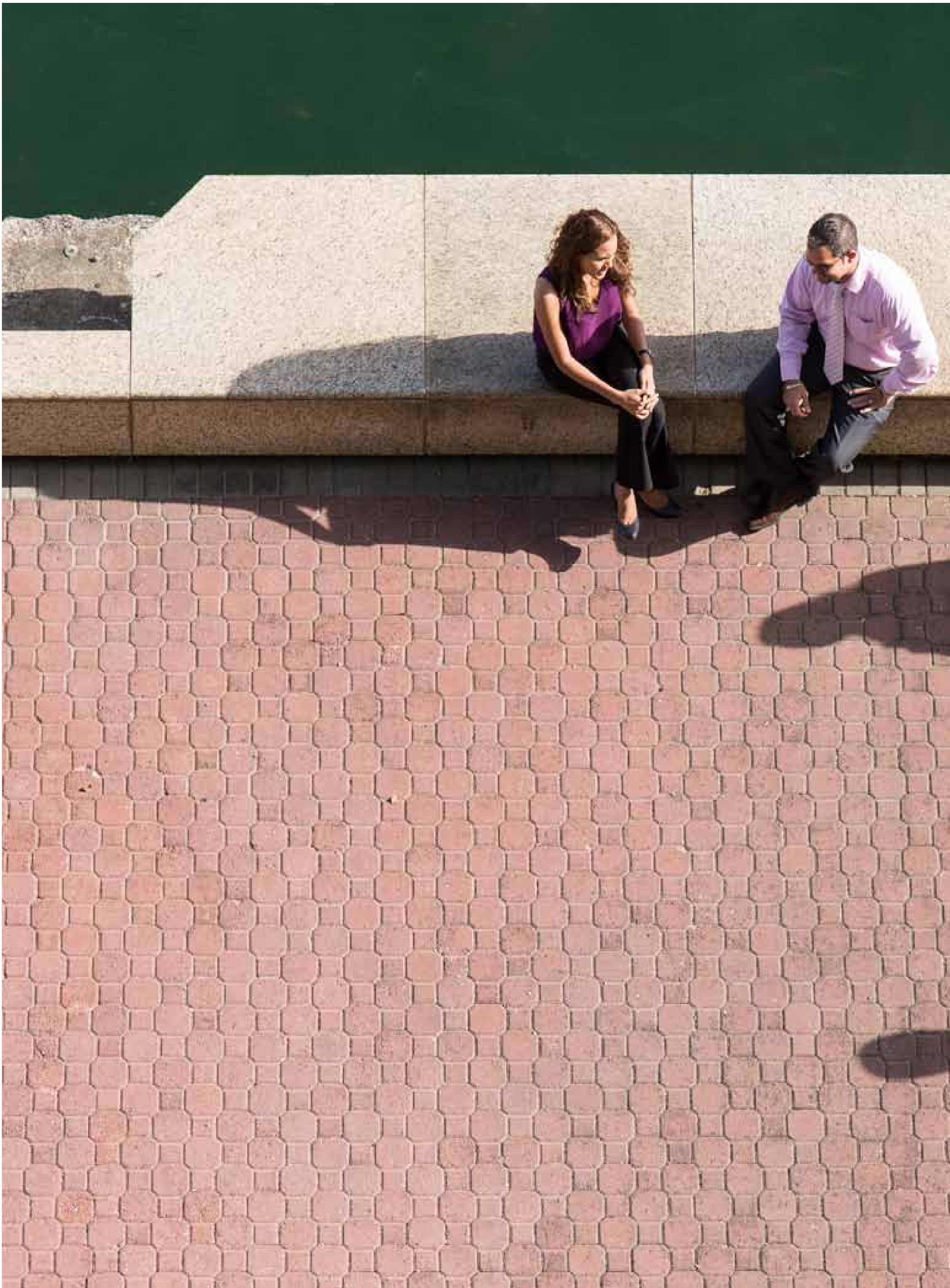
Based on the amendments made to US GAAP, which specifically states that going assessment period is to be within one year after the date that the financial statements are issued (or available to be issued), preparers and auditors will have to specifically evaluate a longer period from what they have been previously used to.

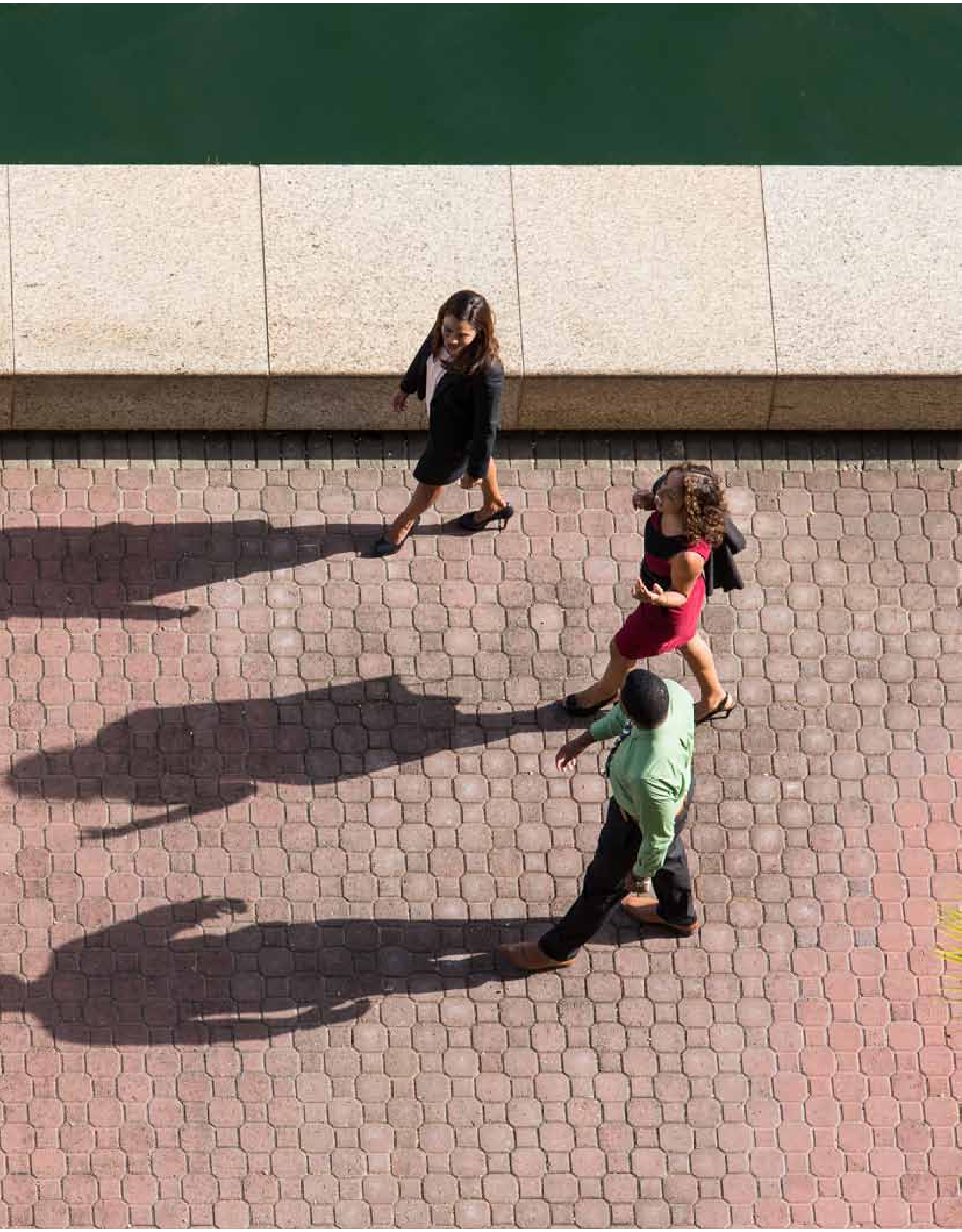
Comparison with other financial reporting frameworks

The existing Indian GAAP does not prescribe any explicit guidance on the assessment of going concern or related disclosures. Indian auditing standards SA 570 (Revised) Going Concern deals with the auditor's responsibility regarding the management's use of the going concern assumption in the preparation and presentation of the financial statements. As per this SA, the auditor is required to obtain sufficient appropriate audit evidence about the appropriateness of the management's use of the going concern assumption and conclude if there is material uncertainty about the entity's ability to continue as a going concern. This responsibility exists even if the financial reporting framework used in preparing the financial statements, does not include an explicit requirement for the management to make a specific assessment of the entity's ability to continue as a going concern. This standard requires that the auditor's evaluation and the management assessment should cover a period of at least 12 months from the date of the financial statements. However, if the management's assessment covers a longer period as required by the applicable financial reporting framework, or by law or regulation, then the auditor's evaluation should cover the same period used by the management to make its assessment.

Under IFRS, financial statements are prepared on a going concern basis "unless the management either intends to liquidate the entity or ceases trading (operations), or has no realistic alternative but to do so". When an entity does not prepare its financial statements on a going concern basis, IFRS requires that the entity disclose the basis of preparation used. IFRS does not provide guidance on the liquidation basis of accounting. Finally, under IFRS, the going concern assessment period is at least one year from the financial statement date (balance sheet date) with no upper time limit.

[1]PCAOB Staff Audit Practice Alert on the Auditor's Consideration of a Company's Ability to Continue as a Going Concern





Recent technical updates

The Companies Act, 2013

Amendment to Companies (Audit and Auditors) Rules, 2014

This amendment deals with the deferment of reporting on internal control and operating effectiveness to financial years commencing on or after 1 April 2015. Auditors may voluntarily include in their reports for the year beginning on or after 1 April 2014 and ending on or before 31 March 2015.

Amendment to Companies (Accounts) Rules, 2014, relating to preparation of consolidated financial statements

Following proviso has been added to Rule6 : Manner of consolidation of accounts, which provides some relief in connection with the preparation of consolidated financial statements:

"Provided further that nothing in this rule shall apply in respect of preparation of consolidated financial statement by an intermediate wholly owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India.

Provided also that nothing contained in this rule shall, subject to any other law or regulation, apply for the financial year commencing from the 1st day of April, 2014 and ending on the 31st March, 2015, in case of a company which does not have a subsidiary or subsidiaries but has one or more associate companies or Joint ventures or both, for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be."

Clarification on matters relating to consolidated financial statements (CFS)

MCA has clarified that Schedule III to the Companies Act, 2013, read with the applicable accounting standards does not envisage that a company, while preparing its CFS, merely repeats the disclosures made by it under the standalone accounts being consolidated. In the CFS, the company would only need to give all disclosures relevant to the CFS.

Clarification with regard to trust or trustee as a partner in limited liability partnerships (LLPs)

The MCA has clarified that for the purposes of a 'real estate investment trust' or 'infrastructure investment trust' or such other trusts set up under the regulations prescribed under the Securities & Exchange Board of India Act, 1992, a trustee, being a body corporate, it is not barred from holding a partnership in an LLP in his or her name without the addition of the statement that he or she is a trustee.

Additional activities included under corporate social responsibilities

Schedule VII (which pertains to activities that may be included by companies in their corporate social responsibility policies) of the Companies Act now also includes contributions to the Swachh Bharat Kosh set up by the central government for the promotion of sanitation and the Clean Ganga Fund set up by the Central Government for the rejuvenation of River Ganga.

SEBI

SEBI (Share-based Employee Benefits) Regulations, 2014

These new regulations came into force on 28 October 2014, and consequently, the SEBI (ESOS and ESPS) Guidelines, 1999 stand repealed. However, the following provisions are applicable:

The prohibition on acquiring securities from the secondary market, as provided in SEBI circular CIR/CFD/POLICYCELL/3/2014 dated 27 June 2014 shall continue till the existing schemes are aligned with these regulations.

All listed companies having existing schemes to which these regulations apply are required to comply with these regulations in their entirety within one year of the regulations coming into effect, subject to certain exceptions.

These Regulations apply to the following types of employee benefit schemes:

(i) Employee stock option schemes

(ii) Employee stock purchase schemes

(iii) Stock appreciation rights schemes

(iv) General employee benefits schemes

(v) Retirement benefit schemes

The regulations are applicable to companies whose shares are listed on a recognised stock exchange in India and which have schemes for the following:

(i) Direct or indirect benefit of employees

(ii) Dealing in or subscribing to or purchasing securities of the company, directly or indirectly

(iii) Satisfying, directly or indirectly any of the following conditions:

- the scheme is set up by the company or any other company in its group
- the scheme is funded or guaranteed by the company or any other company in its group
- the scheme is controlled or managed by the company or any other company in its group

The provisions relating to preferential allotment, specified in the SEBI (ICDR) Regulations, are not applicable for a company issuing shares in compliance with these regulations. Further, these regulations do not apply to shares issued to employees in compliance with the provisions of preferential allotment as specified in the SEBI (ICDR) Regulations, 2009.

A significant change from the previous guidelines is that companies are now required to follow the accounting requirements set out in the guidance note on accounting for employee share-based payments or accounting standards as may be prescribed by the ICAI in this respect, thus eliminating the conflicting requirements specified by SEBI and ICAI earlier.

Institute of Chartered Accountants of India

Exposure Draft of the Ind AS-compliant Schedule III to the Companies Act, 2013, for companies other than NBFCs

The ICAI has issued the Exposure Draft of the Ind AS-compliant Schedule III to the Companies Act, 2013, for companies other than NBFCs. The Accounting Standards Board (ASB) of the ICAI invited comments on the exposure draft from the public, to be received by 20 January 2015.

Illustrative formats of auditor's report under the Companies Act, 2013

The Auditing and Assurance Standards Board (AASB) has issued the illustrative formats of the independent auditor's report on the standalone financial statements (SFS) under the Companies Act, 2013 and the Rules thereunder.

AASB: Illustrative audit engagement letter under the Companies Act, 2013

The AASB has issued illustrative formats for engagement letter for audit of financial statements under the Companies Act, 2013 and the Rules thereunder. These illustrative formats would be added to the Appendix 1 of the Standard on Auditing (SA) 210, 'Agreeing the terms of audit engagements', issued by the ICAI.

Exposure draft on Accounting Standard 10 (Revised): Property, plant and equipment

The ICAI has issued the above exposure draft seeking comments, the last date for which was 18 December 2014. The objective of this standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about investment made by an enterprise in its property, plant and equipment and the changes in such investment.

The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Global updates

IFRS

IASB issues amendments to IAS 1 to improve the effectiveness of disclosure in financial reporting

The IASB has issued amendments to IAS 1, 'Presentation of financial statements', as part of its major initiative to improve presentation and disclosure in financial reports. These amendments are effective for annual periods beginning on or after 1 January 2016, subject to EU endorsement. These cover the materiality, disaggregation and subtotals, notes, disclosure of accounting policies and OCI arising from investments accounted for under the equity method.

As part of the disclosure initiative, the IASB has also published an exposure draft of proposed amendments to IAS 7, 'Statement of cash flows'. The proposal responds to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances.

IASB issues amendments to IFRS 10, IFRS 12 and IAS 28 investment entities: Applying the consolidation exception

The IASB has finalised the amendments to IFRS 10, IFRS 12 and IAS 28. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

Statement issued by FASB and the FAF on voluntary disclosure of IFRS information

The FASB and the Financial Accounting Foundation (FAF) have issued a statement regarding a possible voluntary disclosure of IFRS-based financial reporting information in addition to US GAAP-based information.

IASB launches a programme for investors in financial reporting

Created with the support of some of the world's leading asset managers and owners, the programme is designed to foster greater investor participation in the development of IFRS. The 'Investors in Financial Reporting' programme has been developed to further extend investor participation by specifically encouraging greater involvement from the buy-side community.

US GAAP

Pushdown accounting now optional: New guidance applicable to all companies

On 18 November 2014, the FASB issued a new standard that gives all companies the option to apply pushdown accounting when they are acquired by another party (a change-in-control event). Concurrently, the SEC staff eliminated its guidance that had required or precluded pushdown accounting for registrants generally based on the percentage of ownership. These developments make pushdown accounting optional for all companies effective immediately.

Reporting discontinued operations

The FASB issued Accounting Standards Update No. 2014-08, Reporting discontinued operations and disclosures of disposals of components of an entity (the revised standard). The revised standard changes the current guidance and, in many cases, is expected to result in fewer disposals being presented as discontinued operations. These changes will impact entities across all industries, particularly those that actively divest components.

The new standard amends the criteria for determining whether a disposal qualifies for reporting as a discontinued operation. Under the revised standard, a "disposal of a component of an entity or a group of components of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results" as determined when the component or group of components: (i) meets the criteria to be classified as held for sale; (ii) is disposed of by sale; or (iii) is disposed of other than by sale.

The new guidance is effective for disposal transactions or new components classified as held for sale beginning 1 January 2015 for calendar year-end companies. Early adoption in 2014 is permitted for disposal transactions or components classified as held for sales that have not yet been reported.

PCAOB

PCAOB issues staff audit practice alert on auditing revenue in light of frequently observed significant audit deficiencies

The Public Company Accounting Oversight Board (PCAOB) issued a staff audit practice alert to highlight for auditors the requirements for auditing revenue under PCAOB standards, in light of significant audit deficiencies in this area that have been frequently observed during PCAOB inspections. PCAOB inspection reports have consistently identified revenue as one of the most common areas for audit deficiencies.

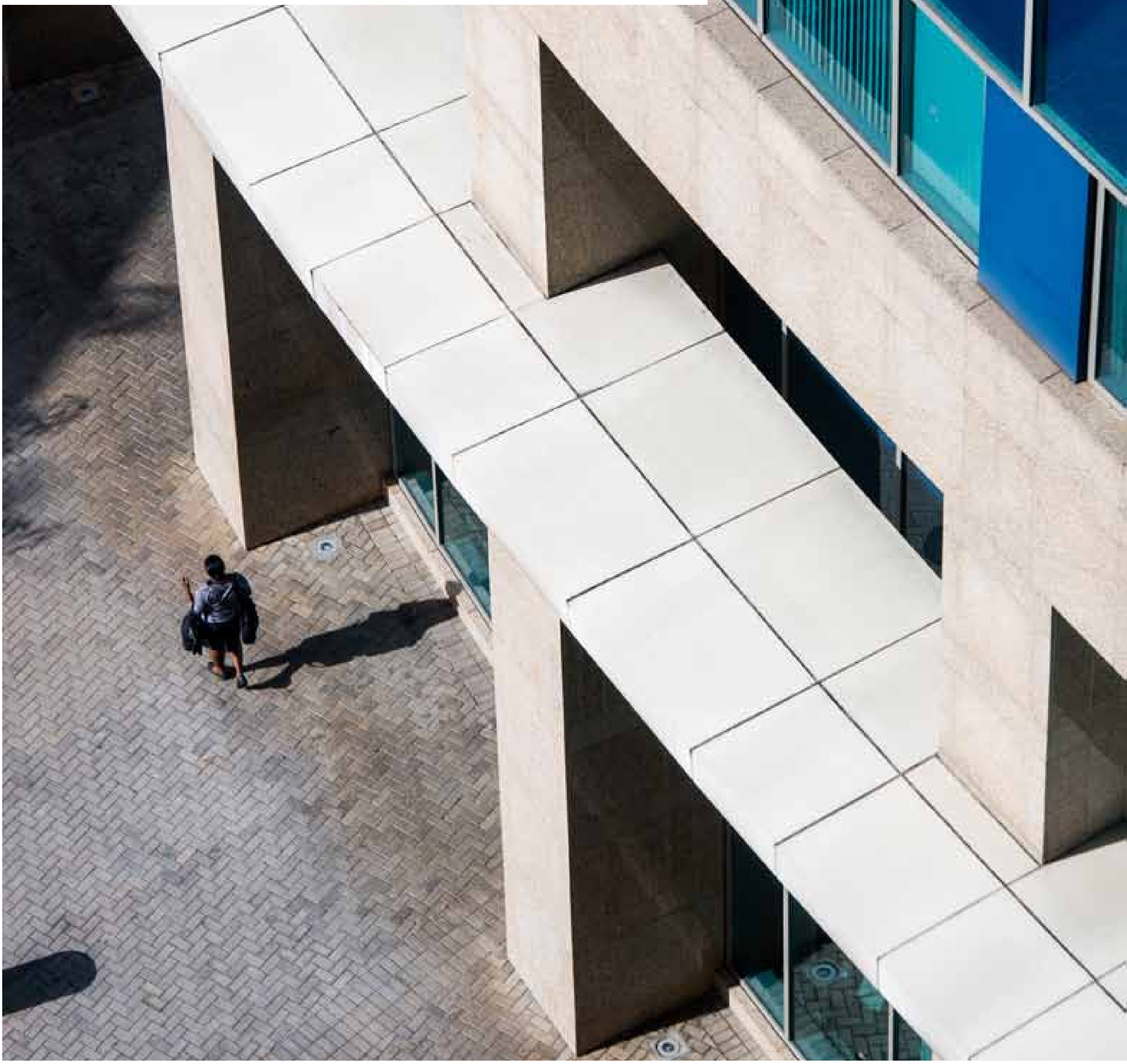
Revenue being one of the largest accounts in the financial statements and an important driver of a company's operating results, and also given the significant risks involved when auditing revenue, auditors should take note of the matters discussed in this practice alert in planning and performing audit procedures over revenue.

IAASB

IAASB issues final standards to improve auditor's report

The International Auditing and Assurance Standards Board (IAASB) released its new and revised auditor reporting standards, designed to significantly enhance auditor's reports for investors and other users of financial statements.

The most notable enhancement is the new requirement for auditors of listed entities' financial statements to communicate 'key audit matters'—matters that the auditor views as the most significant, with an explanation of how they were addressed in the audit. The IAASB has also taken steps to increase the auditor's focus on going concern matters, including disclosures in the financial statements, and add more transparency in the auditor's report about the auditor's work.



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