



**Florida Directors Institute  
Panel Discussion**

**30 October 2017  
Don Zimmerman**



# Agenda

---

## Developments:

1. Audit quality
2. New PCAOB audit report standard
3. Revenue Recognition
4. Leases
5. Q/A session
6. Closing comments

# Quality and execution excellence

---

The auditing profession is facing a significant period of change and significant challenge:



- ▶ New accounting standards and a new auditor's report
- ▶ Innovation in methods and processes using data analytics and advanced technologies
- ▶ Increased interest in and oversight of the audit profession, including enforcement activity, by regulators and other stakeholders

# New PCAOB auditor reporting standard



# New PCAOB auditor reporting standard

## Overview

*Earlier this year, the PCAOB adopted a final standard to revise the auditor's report on audits of financial statements*

### Why did the PCAOB adopt the changes?

- ▶ The PCAOB's intent is to make the report more relevant and informative to investors and other financial statement users, primarily by requiring auditors to report on "critical audit matters" (CAMs)
  - ▶ The standard builds on more than six years of Board outreach and responds to stakeholder feedback and international standard setting

### What does the standard change?

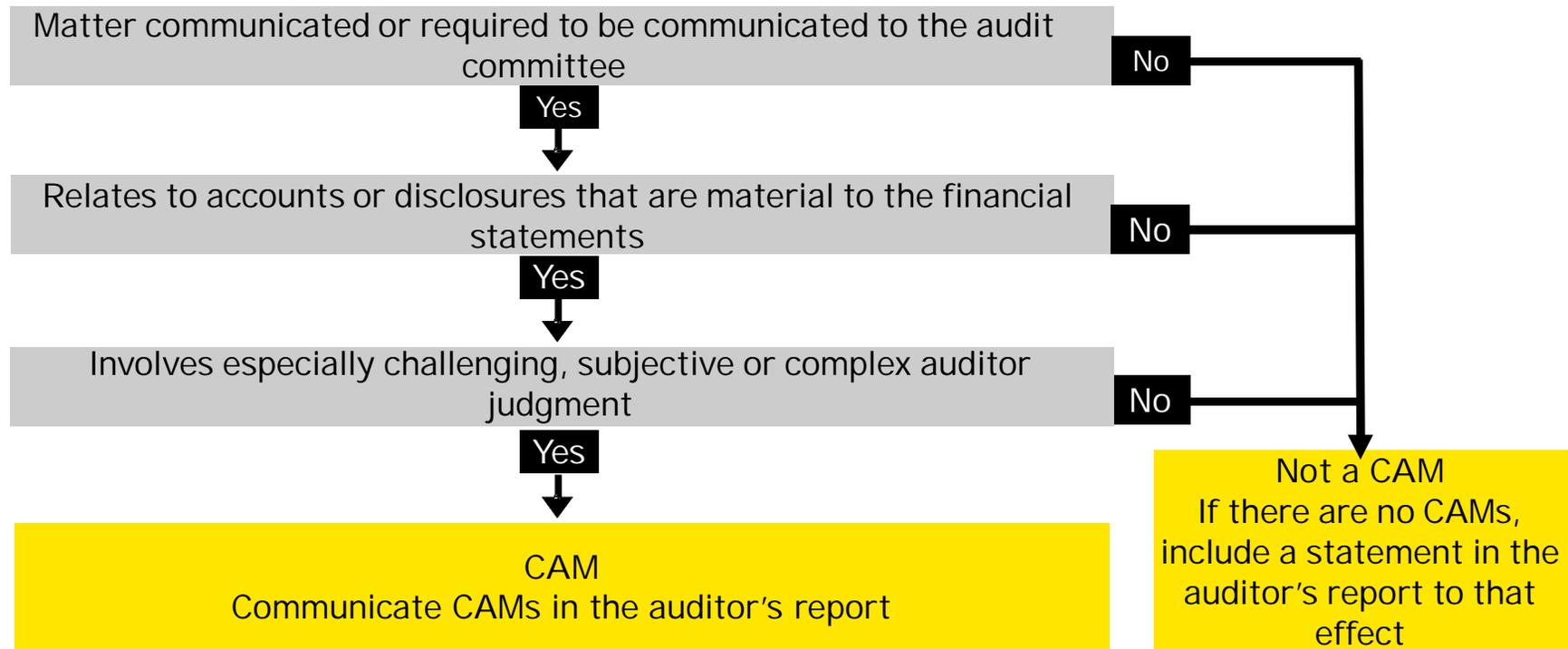
- ▶ The standard revises the format of the auditor's report and requires auditors to include:
  - ▶ For calendar 2017: A statement that the auditor is required to be independent; Clarification of the auditor's responsibilities related to fraud; Information on auditor tenure
  - ▶ A discussion of critical audit matters (CAMs) - starting in 2019 for large accelerated filers; 2020 for other filers

# New PCAOB auditor reporting standard

## Critical audit matters (CAM)

### What is a critical audit matter?

- ▶ A critical audit matter (CAM) is defined as any matter communicated to the audit committee or required to be communicated to the audit committee that both:
  - ▶ Relates to accounts or disclosures that are material to the financial statements
  - ▶ Involves especially challenging, subjective or complex auditor judgment



# New PCAOB auditor reporting standard

## Critical audit matters (CAM)

---

### What will the auditor disclose about CAMs?

- ▶ The auditor will identify the CAM in the auditor's report and:
  - ▶ Describe the principal considerations that led the auditor to determine that the matter is a CAM
  - ▶ Describe how the CAM was addressed in the audit
  - ▶ Refer to the relevant financial statement accounts or disclosures

# New PCAOB auditor reporting standard

## Auditor's reporting model – International experience to date

---

- ▶ Global firms will have significant experience in expanded auditor reporting prior to the effective date of PCAOB's CAM in 2019
  - ▶ United Kingdom and Netherlands adopted similar concepts in 2013 and 2014, respectively
  - ▶ International Standards on Auditing (ISAs) requirement for “key audit matters” effective for 2016 calendar year audits
  - ▶ European Union audit regulation requires communication of “most significant assessed risks of material misstatement” for 2017

# New PCAOB auditor reporting standard

## Auditor's reporting model – International experience to date

---

- ▶ Experiences with key audit matters (KAM) under the International Standards on Auditing (ISA)
  - ▶ Very similar to CAMs under PCAOB model
  - ▶ Pilots or “dry runs” in advance of implementation, with audit committee discussion, helpful for both teams and clients
  - ▶ Different experiences by country but audit committees have been engaged and are generally supportive
  - ▶ Some audit committees request enhancements beyond what's required
  - ▶ Effort is not insignificant for the auditors but expected to reduce with experience – many firms implementing review processes to assist

# Revenue and Leases



# Revenue Recognition (ASC 606)

---

- ▶ Significant effort has already been undertaken by companies, but more work still to be done – Resources are scarce
- ▶ Significant engagement amongst preparers, auditors, regulators and standard setters on accounting issues
- ▶ Audit Committee engagement in the process is critical to a successful implementation
- ▶ ICFR impacts
  - ▶ Lack of change in accounting may still result in a significant change in ICFR
- ▶ SAB 74 – Disclose what you know and what you don't
- ▶ A number of unexpected issues have arisen (e.g., impact of tax accounting)

# Leases (ASC 842)

---

- ▶ Resource and time scarcity
  - ▶ Revenue implementation is stretching available resources
  - ▶ Entities not focused on lease implementation – Need to focus on contract identification
- ▶ IT systems - readiness challenges
  - ▶ Configuration and testing challenges
  - ▶ Systems may not be fully functional by the adoption date
- ▶ ICFR
  - ▶ Updating controls in a timely manner
- ▶ Multinationals US GAAP / IFRS differences
- ▶ Accounting Challenges
  - ▶ Identification of lease and non-lease components

# Questions and answers session

---



## About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://www.ey.com).