

AUDIT COMMITTEE, CFO, ACCOUNTANT, D&O NEWSLETTER
(November 3, 2008)

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This Newsletter is published at least monthly or more often. It is delivered by e-mail, free of charge. The Newsletter contains dedicated articles, comments and links to new developments primarily pertaining to financial, accounting, auditing, governance, legal, risk management and insurance topics for public companies, private companies, nonprofits, and governmental entities.

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In this edition

-Spotlight on audit and audit committee issues in light of the economic downturn-

Public Company Accounting Oversight Board, Standing Advisory Group meets to discuss auditing in the environment of the current financial crisis

The PCAOB Standing Advisory Group met recently to discuss auditing concerns in light of the current financial crisis. In pertinent part, the Group expressed concerns about the following issues for which auditors and audit committees can expect greater emphasis and scrutiny:

- Increasing pressure to cook the books or commit fraud;
- The need for enhanced evaluations relating to liquidity and going concern issues;
- The need for more detailed analysis of financial statements;
- Complexities arising when a company receives money through the government bailout program;
- Underfunded pension plans;
- Asset impairment;
- Improper revenue recognition;
- Aging accounts receivable;
- The need for more detailed evaluation of Management's Discussion and Analysis; and
- Issues relating to excess inventory.

The PCAOB votes to propose seven new auditing standards to enhance the auditor's assessment of and responses to risk during an audit engagement

Announcement:

http://www.pcaobus.org/News_and_Events/News/2008/10-21.aspx

Proposed new standards (173 pages):

http://www.pcaobus.org/Rules/Docket_026/2008-10-21_Release_No_2008-006.pdf

The proposed new risk assessment standards are as follows:

-Audit Risk in an Audit of Financial Statements. This proposed standard describes the components of audit risk and the auditor's responsibilities for reducing audit risk to an appropriately low level in order to obtain reasonable assurance in an audit of financial statements.

-Audit Planning and Supervision. This proposed standard describes the auditor's responsibilities for planning the audit, including assessing matters that are important to the audit, and establishing an appropriate audit strategy and audit plan. The proposed standard also describes the responsibilities of the engagement partner and other engagement team members for supervising and reviewing the work of the engagement team.

-Identifying and Assessing Risks of Material Misstatement. This proposed standard describes the auditor's responsibilities for identifying and assessing risks of material misstatement. The risk assessment process discussed in the proposed standard includes information-gathering procedures to identify risks (e.g., obtaining an understanding of the company, its environment, and its internal control) and analysis of the identified risks.

-The Auditor's Responses to the Risks of Material Misstatement. This proposed standard sets forth the auditor's responsibilities for responding to the risks of material misstatement in the general conduct of the audit and specific audit procedures.

-Evaluating Audit Results. This proposed standard describes the auditor's responsibilities regarding the process of evaluating the results of the audit in order to form the opinion(s) to be presented in the auditor's report. This process includes evaluating uncorrected misstatements and control deficiencies identified during the audit.

-Consideration of Materiality in Planning and Performing an Audit. This proposed standard sets forth the auditor's responsibilities for applying the concept of materiality, as described by the federal securities laws, in planning the audit and determining the scope of the audit procedures.

-Audit Evidence. This proposed standard sets forth the auditor's responsibilities regarding designing and applying audit procedures to obtain sufficient appropriate evidence to support the opinion(s) in the auditor's report. In particular, it discusses the principles for determining the sufficiency and appropriateness of audit evidence.

Spotlight on insolvency issues

The following link is to the U.S. Court of Appeals, Third Circuit opinion upholding a verdict against PwC for an alleged negligent audit which allowed the insurance company which it was auditing to go deeper into insolvency. The case was reported in a prior Newsletter; however, in light of the current economic

financial crisis, the case has additional relevance and importance for auditors and audit committees that may be evaluating the ability of a company to continue in business.

<http://www.ca3.uscourts.gov/opinarch/062209p.pdf>

See also, the following going concern article from the New York State Society of CPAs which in part discusses the likelihood that a going concern warning will be issued by the auditor.

<http://www.nysscpa.org/cpajournal/2004/504/essentials/p40.htm>

Additional links relating to fair value in the current environment

SEC spotlight on Fair Value

<http://www.sec.gov/spotlight/fairvalue.htm>

New Tips for Testing Fair Value amid Turmoil

<http://www.cfo.com/article.cfm/12373569?f=related>

Fair value accounting:

The SEC's announcement of additional guidance: <http://email.aicpa.org/cgi-bin/15/DM/y/ecoe0T3tuz0GSt0lmE0E7>

Frequently Asked Questions about Fair Value Accounting: <http://email.aicpa.org/cgi-bin/15/DM/y/ecoe0T3tuz0GSt0lmF0E8>

Other

Updated paper (11.1.08) discussing audit committee responsibilities and risk management (51 pages):

http://davidtate.us/files/Audit_Committee_Responsibilities_Risk_Management_Dave_Tate_CPA_Esq._11.01.08_.pdf

Paper (7.26.08) summarizing nonprofit audit committee functions and responsibilities:

http://davidtate.us/files/The_Little_Paper_About_Nonprofit_Audit_Committees_Dave_Tate_CPA_Esq._7.26.08_.pdf

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