

## Accounting leaders advocate looking at non-GAAP accounting measures

by Tammy Whitehouse

As the Securities and Exchange Commission continues its focus on use of non-GAAP accounting measures, accounting experts are advising companies to take a look at their internal controls and assure they are appropriate.

Deloitte is rolling out materials to help companies wade into the control issues surrounding non-GAAP measures, beginning with an examination of the extent to which disclosure controls and procedures and internal controls over financial reporting should guide or govern non-GAAP use. The firm says companies that use non-GAAP measures in earnings releases furnished on Form 8-K or that use them in 10-Qs or 10-Ks outside the financial statements should consider the disclosures controls and procedures they have in place.

That means companies should have controls in place to assure non-GAAP reporting is compliant with SEC rules, consistently prepared each period, and prepared using reliable data. Controls should address the accuracy of calculations, the transparency of disclosures, reviews of non-GAAP numbers and disclosures for appropriateness and completeness, and monitoring. Those are the key criteria the SEC raises in its rules on non-GAAP rules that are fair and not misleading to investors.

Deloitte is suggesting companies consider establishing disclosure committees to help the CEO, CFO, and audit committee prepare and oversee disclosures, including non-GAAP

disclosures. "Disclosure committees can set parameters for and determine the appropriateness of disclosures related to non-GAAP measures," Deloitte says in its recent alert. Such a committee could play a role in assuring accuracy, completeness, timeliness, and fairness of a company's disclosures.

The Deloitte alert provides a sample approach to explain how a disclosure committee could help improve governance in this area, and it explains how the COSO Internal Control -- Integrated Framework could provide some guidance on how companies can get their arms around non-GAAP disclosures.

"Given the recent update to the SEC's Compliance & Disclosure Interpretations related to non-GAAP financial measures, the timing is appropriate to also look at a company's related disclosure controls and procedures that cover these measures outside the financial statements," says Jeff Aughton, an audit partner at Deloitte. "Stakeholders often times place significant value on the importance of these measures. The design and operation of controls over non-GAAP financial measures should be addressed to ensure the integrity and reliability for the stakeholders."

PwC partner Beth Paul also is advocating a closer look at controls over non-GAAP measures given the intensified focus at the SEC. She outlines six steps companies can take to build trust in their non-GAAP measures focusing on controls, transparency, consistency, comparability, enhanced disclosure, and governance. ■