

Audit Committee *Brief*



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Publications and topics of interest

PCAOB notes improvements in internal control over financial reporting audits

Even though ICFR audit deficiencies continue to be the most frequent inspection findings, PCAOB board member Jeanette Franzel noted that 2014 inspection results indicate that some improvements have been made in this area. "We are weathering the storm well, as auditors have focused on improving the quality of their audits of ICFR while companies have focused on adopting the 2013 COSO framework. However, we continue to see significant challenges with ICFR across the system."

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SEC proposes clawback rule

The SEC recently issued a proposed rule to implement a provision of the Dodd-Frank Act intended to ensure that executives do not receive "excess compensation" if the financial results by which incentive-based compensation were calculated are subject to a material restatement. The

SEC is requesting comments on the proposal by September 14, 2015. This Deloitte *Heads Up* publication discusses key provisions of the proposed rule and their potential accounting and tax consequences.

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SEC confirms scope of whistleblower protections

New guidance from the SEC clarifies that whistleblowers do not need to report misconduct to the SEC's Office of the Whistleblower to be protected under the Dodd-Frank Act. According to the guidance, the anti-retaliation protections of the law apply even if the conduct is reported through internal channels or to another office at the SEC.

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New IIA Research Foundation report outlines imperatives for internal audit

The Institute of Internal Auditors recently released a publication, *Driving Success in a Changing World: 10 Imperatives for Internal Audit*, that is designed to help internal auditors meet new demands as their organizations increasingly rely on them to provide insights on operational, business, and strategic risks. Approaches covered in the publication include developing forward-looking risk management practices, continually advising the board and audit committee, and enhancing audit findings through greater use of data analytics.

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Rulemaking and standard-setting developments

SEC approves CEO pay ratio disclosure requirements

The SEC adopted a final rule on August 5 that requires companies to calculate and disclose the median of the annual total compensation of its employees (excluding the principal executive officer), the principal executive officer's annual total compensation, and the ratio of these two numbers. Starting with their first full fiscal year beginning on or after January 1, 2017, companies must include the disclosures in filings in which executive compensation information is required.

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FASB simplifies inventory measurement

The FASB recently issued Accounting Standards Update (ASU) No. 2015-11, *Simplifying the Measurement of Inventory*, as part of its simplification initiative. Under the ASU, inventory is measured at the lower of cost and net realizable value, which would eliminate two current options for market: replacement cost and net realizable value less an approximately normal profit margin.

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IASB proposes clarifications to revenue recognition standard

The IASB has published proposed clarifications and transition relief for IFRS 15, *Revenue from Contracts with Customers*. The exposure draft would make targeted amendments to three areas in the original standard: identifying performance obligations, determining principals and agents, and determining licensing rights. It would also provide transition relief for modified and completed contracts. Comments on the exposure draft are due by October 28, 2015. The IASB expects to complete its redeliberations by the end of 2015.

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IAASB amends auditing standards to enhance focus on financial statement disclosures

The IAASB has revised several standards to sharpen auditors' focus on disclosures and to drive consistency in applying the International Standards on Auditing. The revised standards have an accompanying publication that describes financial reporting disclosure trends and possible implications from an audit perspective. The revisions will be effective for audits of financial statements for periods ending on or after December 15, 2016.

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