



Audit Committee *Brief*

The *Audit Committee Brief* focuses on the timely coverage of issues and insights important to audit committees. Questions, comments, or suggestions should be directed to auditcommittee@deloitte.com.

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Publications and topics of interest

Deloitte issues roadmap on non-GAAP financial measures

This Deloitte roadmap combines the SEC's guidance on non-GAAP measures with Deloitte's interpretations and examples in a comprehensive, reader-friendly format. The appendices include questions for registrants to consider when disclosing such measures, highlights from recent remarks by SEC officials, and examples of comments on non-GAAP measures from completed SEC staff reviews.

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Intercompany accounting becomes a growing focus of regulatory authorities

An article from *Compliance Week* notes that authorities in dozens of countries are asking for a closer look at intercompany activity, due to concerns that companies may be manipulating tax rules to avoid tax liabilities. In a recent Deloitte webcast poll, nearly half of the 4,000 participants indicated that their

organizations are looking to achieve greater consistency in intercompany accounting, but are not there yet. Less than 10 percent said they have a well-developed intercompany accounting system that keeps track of transactions across related entities.

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Skill gaps and lack of influence concern chief audit executives

Many chief audit executives (CAEs) recognize that internal audit groups need to change, but many struggle to act on that understanding, according to Deloitte Global's new report, *Evolution or Irrelevance? Internal Audit at a Crossroads*. The study of more than 1,200 CAEs found that 57 percent are not satisfied that their internal audit groups have the skills and expertise to deliver on stakeholder expectations.

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Audit inspections show some improvements in internal control audits

A *Compliance Week* blog post highlights that regulators are encouraged by a reduction in the number of audits with problems in the internal control findings, but are still troubled by the nature of those findings. In a recent update on trends and issues in audits of ICFR, Jeanette Franzel, a PCAOB board member, noted that while the number of deficiencies in testing the design and operating effectiveness of controls has improved, there is no apparent similar improvement in the auditor's selection of appropriate controls to test.

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Sustainability reporting adds up to real numbers

In a recent interview with *Forbes*, Deloitte's Kristen Sullivan highlights the growing demand for accurate and reliable sustainability reporting, noting that in many cases, it lacks the discipline of established management systems, processes, and controls exhibited by financial reporting within organizations. With respect to the board's role in a company's sustainability disclosure program, Sullivan notes: "Transparency around board involvement in sustainability is key for investors and other stakeholders to understand effectiveness and how sustainability drives long-term value for an organization."

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Rulemaking and standard-setting developments

Thinking allowed: the new lease accounting

IFRS 16, *Leases*, was issued by the IASB in January 2016, and will replace IAS 17, *Leases*, for reporting periods beginning on or after January 1, 2019. This publication explains the new requirements and provides tools for assessing how financial statements prepared under IFRS are likely to be affected. It identifies the areas where accounting judgment will be required, mainly around identifying whether an organization has a lease, service agreement, or both; renewal options; and determining the discount rate, particularly on property leases.

[More](#) | [An executive level summary of the new FASB leasing standard](#)

FASB issues guidance on cash flow classification

The new guidance ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, amends ASC 230, *Statement of Cash Flows*, which lacked consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements.

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A roadmap to consolidation — identifying a controlling financial interest

The 2016 edition of this Deloitte roadmap reflects changes to the consolidation guidance made by ASU 2015-02, *Amendments to the Consolidation Analysis*, issued in 2015. It incorporates interpretations and guidance in response to recent developments, including FASB and SEC activity.

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