
STAFF QUESTIONS AND ANSWERS

REFERENCES TO AUTHORITATIVE ACCOUNTING GUIDANCE IN PCAOB STANDARDS

September 2, 2009

Summary: Staff questions and answers set forth the staff's opinions on issues related to the implementation of the standards of the Public Company Accounting Oversight Board ("PCAOB" or "Board"). The staff publishes questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

The following staff questions and answers regarding descriptions of and references to authoritative accounting guidance contained in the standards of the PCAOB were prepared by the Office of the Chief Auditor. Additional questions should be directed to Barbara Vanich, Associate Chief Auditor (202/207-9363; vanichb@pcaobus.org) or Greg Scates, Deputy Chief Auditor (202/207-9114; scatesg@pcaobus.org).

FASB Accounting Standards Codification

On June 30, 2009, the Financial Accounting Standards Board ("FASB") issued FASB Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ("FAS 168"). That standard establishes the FASB Codification ("Codification") as the source of authoritative non-Commission accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").^{1/} The Codification is

^{1/} See U.S. Securities and Exchange Commission ("SEC" or "Commission") Release Nos. 33-9062A; 34-60519A; FR-80A, *Commission Guidance Regarding the*

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effective for financial statements issued for interim and annual periods ending after September 15, 2009.

Descriptions of and References to U.S. GAAP

Q1. Certain PCAOB standards include descriptions of and references to U.S. GAAP and accounting requirements. What is the status of those descriptions of and references to U.S. GAAP and accounting requirements upon the effective date of the Codification?

A1. Certain PCAOB standards contain descriptions of and references to U.S. GAAP that existed prior to the Codification. Those descriptions and references were not intended to represent and do not represent authoritative sources of U.S. GAAP.

Some PCAOB standards include descriptions of and references to accounting requirements that are no longer current. Further, some PCAOB standards include descriptions of accounting requirements that may not represent the final language as adopted in the Codification.

The accounting standards set by the FASB are recognized by the U.S. Securities and Exchange Commission ("SEC" or "Commission") as generally accepted under Section 108 of the Sarbanes-Oxley Act of 2002.^{2/} Therefore, auditors should disregard descriptions of and references to accounting requirements in PCAOB standards that are inconsistent with the Codification.

Auditors should look to the relevant sections of the Codification and to SEC requirements to identify the applicable accounting and reporting requirements for

Financial Accounting Standards Board's Accounting Standards Codification (August 19, 2009).

^{2/} See SEC Release Nos. 33-8221; 34-47743, *Commission Statement of Policy Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter* (April 25, 2003).

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the company under audit. The FASB's web site contains a cross-reference search function to assist users in transitioning to the Codification.^{3/}

The PCAOB plans to revise these descriptions and references in its future standards-setting projects.

Auditor's Responsibilities Regarding the Codification

Q2. What is the auditor's responsibility if, in using the Codification, the auditor believes that an item in the financial statements should be accounted for differently under the Codification than under pre-Codification U.S. GAAP?

A2. The FASB has stated that, generally, the Codification does not represent a change in U.S. GAAP. The FASB, however, has acknowledged that through the process of drafting the Codification, certain wording changes might theoretically lead an issuer to conclude differently on an accounting matter.^{4/} To address those types of changes, the FASB will continue to accept feedback on Codification content after the effective date to improve content and address unintentional changes, when applicable.^{5/} The FASB also has acknowledged that in reviewing the Codification issuers might discover guidance of which they were previously unaware that now indicates that an error may exist in previously issued financial statements.^{6/}

If an issuer reaches a different conclusion on an accounting matter, an auditor should evaluate management's conclusion on whether the different accounting

^{3/} The Codification cross-reference table is available at: http://asc.fasb.org/crossref&analyticsAssetName=home_page_crossreference.

^{4/} See FAS 168, paragraph A15.

^{5/} Ibid., paragraph A17.

^{6/} Ibid., paragraph A16.

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treatment is a change in an accounting principle or an error, following the guidance in Codification Topic 250, *Accounting Changes and Error Corrections*.^{7/}

If the different accounting treatment is a change in an accounting principle, the auditor should follow the direction in:

- o AU sec. 508, *Reports on Audited Financial Statements*
- o PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*

If the different accounting treatment is an error, the auditor should follow the direction in:

- o AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*
- o AU sec. 508, *Reports on Audited Financial Statements*
- o PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*
- o PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*, on evaluating deficiencies in an integrated audit, and AU sec. 325, *Communications About Control Deficiencies in an Audit of Financial Statements*, on evaluating deficiencies in an audit of financial statements only.

Q3. What are the other responsibilities of an auditor with respect to the Codification?

A3. Auditors will need to become knowledgeable about using the Codification. Additionally, for reviews of interim financial information and audits of financial statements for periods ending after September 15, 2009, when referencing or including an excerpt from U.S. GAAP in audit documentation, the relevant

^{7/} This Codification topic was formerly referred to as FAS 154, *Accounting Changes and Error Corrections*.

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Codification topic is the appropriate source for that reference or excerpt. It may be desirable, but is not necessary, to update certain existing audit documentation (e.g., audit schedules, memoranda) containing previous references to U.S. GAAP prepared prior to the Codification.

Audits of Financial Statements Prepared in Conformity with International Financial Reporting Standards

Q4. What consideration, if any, should an auditor give to descriptions of and references to U.S. GAAP in the standards of the PCAOB if he or she is auditing the financial statements of a foreign private issuer ("FPI")^{8/} prepared in conformity with International Financial Reporting Standards ("IFRS"),^{9/} as issued by the International Accounting Standards Board?

A4. In an audit of an FPI's financial statements that are prepared in conformity with IFRS, the auditor needs to consider SEC requirements and IFRS to determine the applicable accounting and reporting requirements and should disregard descriptions of and references to U.S. GAAP in PCAOB standards.

^{8/} See Rule 3b-4(c) of the Securities Exchange Act of 1934 for the definition of "foreign private issuer."

^{9/} See Form 20-F, General Instruction E(c), and items 17 and 18; 17 C.F.R. 249.220f; and SEC Release Nos. 33-8879; 34-57026; International Series Release No. 1306; File No. S7-13-07 (December 21, 2007).