

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on February 16, 2005 that related to the discussion on the auditor signing the auditor's report which was part of a broader discussion titled "Auditor's Reporting Model." Risk assessment was also discussed during the February 16, 2005 meeting and is not included in the transcript.

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1 PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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3 STANDING ADVISORY GROUP

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7 Wednesday, February 16, 2005

8 8:30 a.m.

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15 The Army-Navy Club

16 901 Seventeenth Street, N.W.

17 Washington, D.C.

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ORIGINAL

7 MS. RAND: Thank you.

8 I see no other comments on this. I will
9 move on to question 5 which should take us to our
10 10:30 break time and pick up the remaining two
11 questions after break.

12 Question five is kind of switching topics
13 here on the subject of audit reports, the issue of the
14 identification of individual auditors in the audit
15 report which is something we do not have right now.

16 Right now the audit reports include the
17 name of the firm. So our question here is should the
18 audit report signature include the name of the partner
19 and second partner signing off on the report or other
20 members of the engagement team. Before I ask for your
21 comments, I just want to mention some of those who
22 were opponents of this approach and ones that are for
23 it.

24 Ones for it think that including the names
25 of individual signatures would be analogous to a

1 section 302 certification whereby officers and
2 directors of the company are to certify to the
3 accuracy of financial statements filed with the
4 commission, and believe that including the names of
5 individuals would help increase individual personal
6 responsibility for the audit reports that they sign.

7 Those that are against including
8 individual signatures indicate that 302 was really
9 just put in place because management was attempting to
10 disavow their responsibility with respect to the
11 financial statements. And they argue that the firm
12 takes the overall responsibility, not the individuals;
13 and so by including individuals it could somehow be
14 perceived to limit the firm's overall responsibility
15 for the financial statements.

16 And they also indicate that providing
17 individual signatures is inconsistent with the spirit
18 of Sarbanes-Oxley and the new standards which
19 strengthen firm-based quality control over individual
20 audits.

21 So I'm looking forward to comments on
22 this. I see Bob Kueppers?

23 MR. KUEPPERS: Thanks Jen. We're kind of
24 on a roll with bad ideas.

25 (Laughter.)

1 I don't support this particular one. Let
2 me tell why you. I think that the board and audit
3 committee have absolute knowledge and understanding
4 and actually a sense or a feeling of the capability of
5 the individual on the engagement and they do so on
6 behalf of the investors. I think the -- the truth is
7 that the entire firm stands behind the report.

8 There is differential legal
9 responsibility, frankly, as part of -- you know -- the
10 individual people on the account have different
11 liability profiles in terms of personal assets at risk
12 as opposed to all other partners; but the real point
13 is that the entire system of quality control what is
14 stands behind that opinion. And the entire system of
15 quality control includes the partner, the second
16 reviewer, but what about the national office
17 consultation partner? What about the methodology that
18 underpins and documents the audit?

19 So I think it tends to limit the
20 importance, frankly, of the firm name when you do
21 that; so I'm not in favor.

22 MS. RAND: Jeff Steinhoff?

23 MR. STEINHOFF: At GAO either the
24 Comptroller General, the managing director or director
25 signs the report. Also the name of key staff are

1 listed. Having said that, I don't buy into the
2 premise that that changes how someone behaves. We
3 just do it that way. Whether or not I'm signing it as
4 a managing director, whether a director reporting to
5 me is signing it or the Comptroller General is signing
6 it, I feel the same responsibility for the quality of
7 it.

8 Also, we view each product as an
9 institutional product; so I feel the same way if
10 another managing director or director from another
11 unit is signing something and I am weighing in on that
12 as a second or third or fourth partner in some cases.

13 We view all our products as being
14 institutional products. I think it is fine if someone
15 wants to sign it. I think the model we have is
16 perfectly fine. But I think it should be left up to
17 the auditor and see nothing wrong with having a firm
18 sign them because they are all institutional products.
19 I don't think it changes the way one views quality. I
20 feel just as much responsibility if it is signed by
21 someone reporting to me as I field as if it is signed
22 by the Comptroller General whom I report to.

23 MS. RAND: Wayne Kolins?

24 MR. KOLINS: From the perspective of the
25 analogy itself, I'm not sure it works because 302

1 certifications are not signed by the company in
2 addition to the individuals. They are signed by the
3 individuals. From the viewpoint of the audit firm, if
4 the underlying premise of this proposal is that it
5 would cause the auditors to be more careful in doing
6 the audit, I think it may ignore the potential for
7 PCAOB sanctioning of the individuals, for SEC
8 enforcement action against the individuals, for state
9 licensing actions against the individuals. And so the
10 individuals are responsible and I think they know that
11 they're responsible. Bringing in the concurring
12 reviewer doesn't work because the concurring
13 reviewer's responsibilities are not at the same level
14 as that of the lead audit partner.

15 MS. RAND: Nick Cyprus.

16 MR. CYPRUS: Well, I guess I have a
17 slightly different view, so I'll lead off.

18 I believe accountability is important and
19 while I agree that the firm should stand behind its
20 opinions, I don't know as I am responsible for the
21 fair presentation of the reports of management, I
22 believe my auditor is responsible for the fair audit
23 of the financial statements. And as good as firm
24 policies are, and I've said this multiple times, the
25 quality of an audit is very much dependent on the

1 partner on a job. And so when people randomly say
2 well, we're going to get out of this audit firm and
3 get another one, I say you know, it is not about the
4 firm. It is about quality of the people you have on
5 the job.

6 So I believe it is important as management
7 takes accountability and signs so should the auditors
8 take accountability for their report and sign even
9 though the firm's name is there. So is theirs.
10 Whether it makes a difference or not, I don't know.
11 But I can't see it hurting.

12 MS. RAND: Cynthia Richson?

13 MS. RICHSON: I too, believe that the
14 partner should sign the letter. It kind of surprised
15 me when I first focused on this issue in joining the
16 SAG because of course being a lawyer, we would never
17 think of signing a legal opinion without having the
18 name of the individual partner that actually authored
19 the letter. So I really think this is probably the
20 only profession where I have ever run into this where
21 you can issue this important report in the generic
22 name of a firm that could be a global firm. So you
23 don't even know which office -- who was involved in
24 it, if for nothing else if for informational purposes.

25 And I really think trying to make this

1 akin to the Sarbanes-Oxley 302 certification is a red
2 herring. Certainly it gives an impression of an
3 ownership issue when an individual actually has to put
4 their name on the report. But Sarbanes-Oxley is very
5 clear. It just applies to individual certification by
6 the CFO and the CEO. So I don't know that that
7 argument has a lot of merit. But I would certainly
8 vote in favor of answering yes to this question.

9 MS. RAND: Don Chapin?

10 MR. CHAPIN: An eon ago I was a partner in
11 Arthur Young & Company and used to sign reports. At
12 that point we signed the firm's name in handwriting
13 and it appeared in the issued reports. I say that
14 only because when I took my pen in hand, I had a sense
15 of personal responsibility that I doubt I would have
16 had had it just been some printed name. Secondly,
17 when I moved to GAO -- contrary to what Jeff Steinhoff
18 said -- when I had to not only sign -- I had to sign
19 my name on the report, and that really focuses
20 responsibility.

21 And it is the essence of responsibility
22 that in this kind of a complex thing, that the
23 coordinating partner who would be the one that would
24 sign this report, needs to access all the information
25 he has. He needs to feel personal responsibility when

1 he does -- when he signs that report; and I think that
2 it would be helpful to have. In my opinion, it would
3 be like Arthur Young & Company by Donald H. Chapin,
4 general partner. I think that ties it up pretty damn
5 well.

6 MS. RAND: Arnie Hanish?

7 MR. HANISH: I actually agree with Don and
8 Nick and others. I think the accountability issue is
9 critical. I think having the individual sign their
10 name as a partner of a particular firm but have their
11 individual name is probably most critical. We find
12 behaviors within our company where we're asking people
13 to sign their name. You get different behaviors when
14 somebody has to put their name on something. And
15 we'll never know whether or not the partners at Arthur
16 Andersen would have had a different perspective on the
17 Enron account if they would to have had to sign their
18 names but I very much support the individual names
19 being shown on the auditor's report. Along with the
20 firm's name.

21 MS. RAND: Bob Walter?

22 MR. WALTER: I would just echo what Arnie
23 said. I think that -- and Don, I think that's an
24 excellent idea. When you get right down to it, step
25 back for one second and ask yourself this: The board

1 and the commission already are going to know who the
2 lead partner is on that account. So who are we
3 talking about informing here?

4 What we're really talking about is
5 informing the public and -- you know -- frankly, I
6 think that the public perhaps isn't going to care that
7 much, but I think that the partner who puts his or her
8 name underneath the firm's name is going to care a
9 lot. I know if I were signing -- and I have to say I
10 haven't seen many law firm opinions that have an
11 individual name on there, but I have seen an awful lot
12 of lawyers that have signed firm opinions and suddenly
13 their memory gets very short when it becomes
14 convenient, about how it was that that opinion was
15 arrived at.

16 So I think it is an excellent
17 responsibility and I think this whole idea of analogy
18 to 302 is just absolutely dead wrong. There should
19 not be any analogy drawn whatsoever and anybody who
20 has done that I think is misstating the issue here in
21 terms of personal responsibility.

22 So --

23 MS. RAND: Bevis Longstreth?

24 MR. LONGSTRETH: Thanks. The practice in
25 New York at least among the large firms is pretty

1 consistent in that only the firm name is signed, and
2 going back a ways, it wasn't always that way. There
3 was a more varied practice when I started in New York
4 in 1961. I think the practice evolved because the
5 most established well known firms just signed their
6 names. It was a sign of the firm reputation; and that
7 the firm was behind the opinion.

8 And, of course, we aren't talking about
9 revealing a fact that isn't immediately ascertainable.
10 That's not the issue. So I think the only issue
11 that's being discussed here, the only plausible reason
12 you would want to regulate in this area is that it
13 might improve the quality of the audit.

14 I search in these meetings and in the
15 materials and even vicariously yearn for at least a
16 tiny little spot where the regulators might accord to
17 the profession some unfettered discretion. If they
18 don't, I don't think it is going to be a profession
19 anymore.

20 And so I have a shocking, bizarre idea:
21 Why not allow the profession to decide for itself how
22 it signs its opinions?

23 If accountability in a firm of any stature
24 is really improved because the partner's name is on
25 the opinion, I think the firm needs some work. But

1 anyway, maybe not. But why not let the firm decide
2 because the fact is there is vicarious liability for
3 the firm. It cares enormously about making sure each
4 of its partners does the best possible job, because
5 that partner carries with him or her the possibility
6 of exposing the firm to disastrous liabilities.

7 Is there anybody who could decide this
8 question with greater intense interest than the firm
9 itself?

10 MS. RAND: Thank you. It is 10:30. I
11 have six other cards up. So I vote for taking our
12 break at 10:30. We'll resume at 11:00. When we come
13 back we'll continue with the cards that are up and
14 take your comments. So 11:00.

15 (Recess.)

16 MS. RAND: If you could please start
17 heading back to your seats, we would like to resume in
18 a couple of minutes. Thank you.

19 Okay. We'll resume our discussion on
20 auditor's report and identification of the auditors.
21 I do want to say for those listening in on our web
22 cast and joining us for the risk assessment
23 discussion, we will be starting that around 11:30. We
24 will be continuing the discussion on auditor's report
25 from now until 11:30. And because of that, I just note

1 for all of you, we are interested in your feedback.
2 We have got six cards up for this discussion on
3 question number 5. And then we have two other
4 questions. So I want to make sure we get to
5 everyone's remarks. Just if you can try to be concise
6 or as concise as possible so we that can hear comments
7 from everyone, I'd appreciate it.

8 Continuing with our discussion on this
9 question, Zabi Rezaee? You can lead us off.

10 MR. REZAE: Yes, ma'am. I will be very
11 concise. I believe including the name of the lead
12 partner in the auditor's report shows the professional
13 commitment to more accountability after the
14 Sarbanes-Oxley Act and also would help to restore
15 investor confidence and public trust in the financial
16 reporting and especially in the audit report and
17 credibility of the audit report. So I'm in favor of
18 including the name of the partner and signature in the
19 report.

20 MS. RAND: Ray Bromark?

21 MR. BROMARK: Thanks, Jennifer. I think
22 the way you laid out the pros and cons in your paper
23 was very well done. I'm still scratching my head a
24 little bit to better appreciate why some folks believe
25 the current process is broke, and I guess if there's a

1 view that the engagement partner does not take his
2 responsibility seriously or isn't accountable or those
3 ideas need reinforcement, I think we probably need to
4 get to the root cause. And I don't think whether an
5 individual signs his or her name to the opinion or
6 it's the firm's name is the root cause, gets to the
7 root cause of that.

8 I would, I guess stepping back a bit, I
9 guess I don't really feel strongly one way or another,
10 but I can tell you that when I sign my firm's name,
11 I'm thinking as much if not more about the
12 responsibility I have to all of my partners as well as
13 the responsibility I have to myself.

14 And then lastly, I ask the question: Is
15 this a good use -- is taking on this issue a good use
16 of everybody's time and do we have so many more
17 important issues we ought to be addressing that that's
18 maybe where the focus ought to be, instead of on this
19 issue.

20 MS. RAND: Lynn Turner?

21 MR. TURNER: We've in the profession
22 debated this issue for at least the last 30 years; and
23 people keep throwing it out and it goes away and then
24 they throw it out again and it goes away.

25 It seems the reason it keeps coming back

1 is because the customers say they would like to see
2 that person's name on the report. And whereas Ray
3 turns around and says you know, I don't understand
4 what is broken, I guess my comment is having been a
5 partner, you know, all you're doing is asking me to do
6 is put my name on the bottom, maybe with the firm's,
7 or whatever. It takes me two seconds to do it and if
8 so, then if the customers want it, give the customers.
9 Let's quit debating and wasting our time on this and
10 we can be done with this very easily. I actually do
11 agree with what we heard around the table from Ernie
12 and -- Arnie and Nick and others that, I do think it
13 will have a positive impact on accountability.

14 I also note that as a financial expert on
15 an audit committee, I'm asked to throw out my name and
16 other people are asked to throw out their names and
17 certainly the accounting firms I think supported the
18 knows of establishing financial experts on audit
19 committees and throwing out those names.

20 So in a way it is kind of what is good for
21 the goose is good for the gander here. And I actually
22 do have a problem with an auditor saying it's okay for
23 you to be named as a financial expert but we don't
24 want to name who the auditor partner is on the audit.
25 That, I come back to the question: Why?

1 MS. RAND: John Morrissey?

2 MR. MORRISSEY: Yeah. I think it's an
3 example you're piling on. I take the notion of having
4 someone sign their name below the -- is certainly a
5 good idea. How could it not instill a degree of
6 accountability at the individual level? And to Lynn's
7 point how can an investor not appreciate the fact that
8 someone is willing to put their name on the line and
9 sign an opinion? I don't see any downside to it.

10 In thinking back to what Don's comments
11 were about the olden days when we had to sign opinions
12 manually, I remember doing that. I personally felt it
13 that was my name on there. I know I spelled it wrong
14 because it was the name of the firm, but it was me, my
15 personal reputation on the line. And I think that's a
16 good thing that you feel that way. And I don't think
17 there is any reason why you shouldn't feel that way
18 today even though you have mechanical signatures on
19 opinions.

20 So I'm with Lynn. I think it takes two
21 seconds to do it. And if it helps only like 1 percent
22 of the cases where someone really hesitates and says I
23 don't want to put my name on that, that's a good
24 thing for investors. That's where I would be on it.

25 MS. RAND: James Campbell.

1 MR. CAMPBELL: I think I would concur with
2 what some of Bevis's comments earlier. This strikes
3 me as a philosophical issue. But I'm going to break
4 ranks with my colleagues here and I want all the
5 assets and all the professional skill of the firm
6 applied to my audit without any ability to disclaim or
7 distance myself from that professional skill or those
8 assets.

9 So I'm in favor of the firm's signing off
10 on the audit, but I do agree with Bevis, maybe this is
11 best left to auditors and issuers to decide and some
12 latitude there might be appropriate.

13 MS. RAND: John Fogarty?

14 MR. FOGARTY: Just observe a couple of
15 things here. One is I think it is very common
16 practice in the firms today and has been for a long
17 time for the partner and the manager to sign report
18 records, dockets, different things that they're called
19 which has the behavioral effect that many people have
20 mentioned here.

21 Second thing is that the practice of
22 auditors personally signing the reports is widely done
23 in Europe. It is done in Japan as well. I guess if
24 there was going to be a consideration of doing this,
25 perhaps the board ought to look into the experiences

1 in those jurisdictions.

2 MS. RAND: Gerry Edwards?

3 MR. EDWARDS: Jennifer, you asked to us be
4 brief. So just briefly I think there is value to
5 having the firm sign, but I would support some
6 additional disclosure about the names of the partners
7 that are responsible for the audit.

8 I'm persuaded by the same types of issues
9 I think a number have raised around the table that
10 this could have some on the overall audit quality over
11 time. So I would support that.

12 MS. RAND: Looks like there are no other
13 comments on this, so then I will move on to question 6
14 dealing with part of an audit performed by other
15 independent auditors.