

**NOTICE:** This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on November 9, 2011 that relates to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the November 9, 2011 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP MEETING

Public Company Accounting Oversight Board

1666 K Street, N.W.

Suite 800

Washington, D.C. 20006

November 9, 2011

9:00 a.m.

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PARTICIPANTS

Moderators:

MARTIN BAUMANN

Participants:

JENNIFER RAND	KIKO HARVEY
BRIAN SIPES	STEVE RAFFERTY
JOE CARCELLO	ANTHONY KENDALL
STEPHEN HOMZA	MICHAEL AUERBACH
KURT SCHACHT	BOB DUCEY
ARCH ARCHAMBAULT	LARRY SMITH
JAY HANSON	
MARY HARTMAN MORRIS	BRIAN CROUTEAU
DOUG CARMICHAEL	JIM KROEKER
KEVIN REILLY	ARNOLD SCHILDER
BARBARA ROPER	MEGAN ZEITSMAN
WAYNE KOLINS	HARRISON GREENE
ARNOLD HANISH	GAIL HANSON
SUE HARRIS	LYNN TURNER
DAMON SILVERS	LIZ GANTNIER
BILL PLATT	LEW FERGUSON

1 Participants (continued):

2 SCOTT SHOWALTER

3 JOHN WHITE

4 JEFF MAHONEY

5 JIM DOTY

6 GAYLEN HANSEN

7 NERI BUCKSPAN

8 MIKE GALLAGHER

9 DAN SLACK

10 DAN GOELZER

11 DENNY BERESFORD

12 LISA LINDSLEY

13 SAM RANZILLA

14 MICHAEL GURBUTT

15 KEITH WILSON

16 BRIAN DEGANO

17 GREG SCATES

18 GREG FLETCHER

19 DMYTRO ANDRIYENKO

20 DOMINIKA TARASZKIEWICZ

21 KANNAS RAGHUNANDAN

22 LISA CALANDRIELLO

1 MS. RAND: All right. We're at the last  
2 discussion of the day, improving transparency of  
3 audits. Our agenda says today that we would end at  
4 5:15. Most SAG members are required to be here until  
5 tomorrow. So with that consideration, we thought we  
6 might go all night.

7 Just kidding.

8 [Laughter.]

9 MS. RAND: But we'd like to have the discussion go  
10 until 5:30. If that's a problem for anyone, certainly  
11 leave if you need to, leave at 5:15, but we do plan to  
12 go to 5:30. We very much are interested in your  
13 comments. So if we need to continue any discussion  
14 tomorrow morning, we will do that.

15 But with that, we'll get started. And Lew  
16 Ferguson, our Board member, is opening -- providing  
17 some opening remarks.

18 Lew?

19 MR. FERGUSON: On October 11th of this year, the  
20 Board issued proposed amendments to the Board's  
21 Standards and Rules aimed at improving the transparency  
22 of audits. Specifically, we have proposed two

1 additional requirements: one, a requirement to  
2 identify the audit engagement partner in the auditor's  
3 report; and two, a requirement to disclose in the audit  
4 report other independent public accounting firms and  
5 other persons who took part in the audit.

6 This is an issue -- the identification of the  
7 audit engagement partner specifically is a matter that  
8 has been discussed repeatedly at the Standing Advisory  
9 Group and in the Board's Investor Advisory Group, and  
10 we've had different views expressed on it.

11 On the one hand, with respect to disclosure of the  
12 audit engagement partner, or the signature of the  
13 report by the audit engagement partner, proponents of  
14 disclosure have argued that such disclosure would  
15 increase the transparency of the audit process, as well  
16 as potentially increase the accountability of the audit  
17 engagement partner if he was forced to have his name  
18 identified or put his name on the report.

19 Skeptics, on the other hand, have argued that  
20 identification of an individual auditor in the report  
21 is actually misleading. It would be misleading to  
22 investors because the audit is, in fact, a collective

1 enterprise and requires the resources of many, many  
2 different people in the firm.

3       They've also made a second argument. Skeptics  
4 have also made a second argument, that by requiring  
5 that the individual partner either be named or sign the  
6 report, it could potentially increase his individual  
7 liability in the event of securities litigation arising  
8 out of the audit.

9       We've looked at both of those things, and this is  
10 speaking sort of primarily for myself in this case, but  
11 I think one of the factors that influenced me, but I  
12 think influenced the Board as a whole on this, was that  
13 the audit engagement partner I think is in a unique  
14 position with respect to the audit. He is the firm's  
15 primary interface with the client. He is the person  
16 that the board of directors, the audit committee, and  
17 the management of the firm interacts with most of all.

18       The audit committee does not call up -- the  
19 chairman of the audit committee doesn't call up the  
20 firm when he has a question. He calls up the primary  
21 audit partner. And many, many audit committees also  
22 are extremely interested in the process of selecting a

1 successor audit engagement partner when there is  
2 rotation, that who the audit engagement partner is, is  
3 a very important matter to clients.

4       So I think we thought that this is something,  
5 because of that, and because of the unique role of the  
6 audit engagement partner, that this is something that  
7 probably would be of use to investors to know who that  
8 is. We heard the arguments and we were familiar with  
9 the arguments that if you really want to find out who  
10 an audit engagement partner is, you can go to the  
11 shareholders meeting, where the audit engagement  
12 partner will probably be there and will probably get up  
13 and identify himself.

14       That's not realistic for most investors. Most  
15 investors don't go to the shareholders meetings.  
16 Perhaps the largest ones do, but most don't.

17       We also seriously considered the question of  
18 whether identification of the audit engagement partner  
19 would increase liability. I think the answer to that  
20 is not clear at this point. We looked carefully and  
21 were aware of, obviously, the developments in the Janus  
22 case in the Supreme Court and its rather ambiguous



1 progeny.

2           But I think we thought that -- and this is  
3 something that we would like to hear much more on from  
4 other people, but we thought that, in our view, that in  
5 general we did not think that by identifying, merely  
6 naming the person, not requiring him to sign the  
7 report, that this would increase dramatically  
8 liability, and that's the reason we chose the course we  
9 did in these proposed rules of identifying but not  
10 requiring the audit engagement partner to sign the  
11 report.

12           On the second issue, with respect to naming other  
13 firms and other individuals who participated in the  
14 preparation of an audit, as we talked to people we were  
15 surprised to learn how many investors really were not  
16 familiar with the fact that oftentimes an audit,  
17 particularly of a large multinational firm, is  
18 oftentimes conducted by many, many different firms  
19 around the world, many of which are not the same legal  
20 entity as the firm signing the report.

21           We thought that it would actually -- I think the  
22 Board believed that it would actually increase

1 investors' knowledge about the audit by having other  
2 firms that are participating in the audit be  
3 identified. For one thing, it would give investors  
4 knowledge of or transparency into those firms that have  
5 conducted part of the audit which are not subject to  
6 PCAOB inspections, and there are a number of firms  
7 around the world, for example even in some major  
8 countries, that as of yet we are unable to inspect, and  
9 that this would be information that could be of  
10 interest to investors.

11 We were aware -- we heard the arguments. We were  
12 aware of the arguments that, in fact, the principal  
13 auditor is the one who is responsible ultimately for  
14 the audit, and that he's actually supervising the  
15 audit, and the question was why do you need to disclose  
16 the names of the other firms that are involved.  
17 Nonetheless, I think under the theory that more  
18 information is probably better and people can  
19 understand and are able to evaluate that information  
20 for what it's worth, we have proposed to go ahead and  
21 identify those firms.

22 So that's the proposal or the proposals we took.

1 Obviously, the comment period is still open. We're  
2 waiting for people. We're very interested in what  
3 people's views on these issues are.

4 Jennifer?

5 MS. RAND: Okay. Thank you, Lew.

6 I'd now like to walk you through the requirements  
7 or the proposed requirements in our proposal. While  
8 the concepts I think are pretty straightforward, which  
9 is providing identification of the engagement partner  
10 and the other firms, there's some very technical  
11 aspects we found as a project team going through this  
12 project as far as who exactly is required to be  
13 disclosed, who isn't, and to what extent.

14 So I want to provide you with an overview of that,  
15 and the proposal is asking questions about the proposed  
16 amendments, as well as certain exceptions that may be  
17 provided, et cetera. And we're also interested in any  
18 discussion you all may have about it.

19 Before I get into it, I just want to mention that  
20 I'm joined up here at the table by Dima Andriyenko and  
21 Lisa Calandriello. They're my colleagues on this  
22 project, so I may turn it to them if they have any

1 other thoughts in responding to any of your comments.

2       So moving on, the proposal was issued a month ago,  
3 October 11th, for a 90-day comment period. So we have  
4 two months to go. The comment period deadline is  
5 January 9th, 2012. It essentially is requiring  
6 disclosure in the audit report, and also Form 2, but in  
7 the audit report of the engagement partner, the name of  
8 the engagement partner, and other accounting firms or  
9 persons that took part in the audit.

10       It is also proposing an amendment to the Board's  
11 annual report, which is called Form 2, and our  
12 registered public accounting firms are required to  
13 submit a form to the Board on their annual report  
14 providing information about the issuers they audit. So  
15 this would require, in addition to the issuers, the  
16 name of the engagement partner.

17       I keep hitting my microphone instead of the  
18 advance-the-slide button, so you'll have to forgive me  
19 for turning my microphone on and off. Marty will do it  
20 for me. There we go.

21       The disclosure of the engagement partner, as Lew  
22 was talking about, it does build on the concept release

1 the Board issued a couple of years ago that was seeking  
2 comment on whether or not the engagement partner, there  
3 should be engagement partner signature in addition to  
4 the firm's signature in the audit report.

5 We received 23 comment letters on that concept  
6 release. Some of the concerns were that the signature  
7 of the engagement partner would have the appearance or  
8 could otherwise minimize the firm's overall  
9 responsibility for the audit. The opinion, the audit  
10 opinion is the opinion of the firm, and it's the  
11 signature of the firm that's in that. So several  
12 comments raised concern about that is a partner's  
13 opinion or a firm's opinion, minimizing the firm's  
14 role. So clearly some concerns on that end, as well as  
15 concerns about liability, and Lew talked about that.

16 The Board in its approach modified the approach  
17 from the concept release. So this would not require  
18 the engagement partner's signature. It would, however,  
19 require disclosure of the engagement partner in the  
20 firm's opinion, and that disclosure would essentially  
21 say the name of the engagement partner for the most  
22 recent audit was -- insert individual's name.

1           It would be, then, the specifics, the engagement  
2 partner's name. It would be for the most recent  
3 period. We received several comments about would it be  
4 for multiple years, and we recognized that with the  
5 partner rotation requirements, there would be changes  
6 in partners, which we would expect. There could also  
7 be other situations such as dual dating, or in an IPO  
8 situation, maybe several years, three years of  
9 financial statements may be audited at one time.

10           This proposed disclosure would require for the  
11 most part reporting on the most recent period under  
12 audit. That would be the situation we expect to see  
13 most often. The proposal does deal with those special  
14 situations such as dual dating and if three years are  
15 audited at once in an IPO, for example, in which case,  
16 if that was the case, if it's the IPO situation, the  
17 disclosure would say the engagement partner for the  
18 three years or two years under audit was X; or if it  
19 was dual dated and they just did a portion of the audit  
20 covering the second date, then that would just disclose  
21 that individual.

22           So we recognized that there were some different

1 scenarios that could come up, that do come up in  
2 reporting, and so the proposal is intended to reflect  
3 that. And then, as I said, the proposal would require  
4 disclosure in the Board's annual report Form 2, so the  
5 names of the engagement partners.

6 Advance me.

7 All right. So next, moving on to the other  
8 participants in the audit, so that would be the other  
9 firms or could be other individuals or other type of  
10 companies, we have seen in inspections and recognize  
11 through our standards that essentially other firms or  
12 other participants could and often do participate in  
13 performing the audit. In our standards, that really  
14 falls under one of two situations. One is AU-543. So  
15 that would be when another firm performs an audit of a  
16 company's subsidiary, division, office, and then the  
17 principal auditor may assume responsibility for that  
18 work.

19 Another situation is under our Auditing Standard  
20 Number 10 on supervision. And so firms or other  
21 persons, and I'll describe persons in a minute, but  
22 those would be supervised by the firm issuing the

1 report, just like they supervise people within their  
2 own firm, within their own office. So that would fall  
3 under that standard. So it's one of those. Either  
4 it's under AU-543 or AS-10, and in a practice alert the  
5 staff issued a year ago, we talked about these two  
6 scenarios, and our Inspections Division had seen  
7 certain issues or observations, deficiencies in  
8 connection with that. So we issued a practice alert to  
9 provide some additional guidance and point out what our  
10 standards say under those scenarios.

11 But this would essentially capture the universe of  
12 who would be required to be disclosed in the firm's  
13 audit report.

14 There are certain exceptions, and so they're  
15 listed on this slide. The exceptions that we have,  
16 I'll go through each one. The reasons may be a little  
17 bit different for each.

18 The first is the engagement quality reviewer. In  
19 the previous slide I talked about the two scenarios,  
20 543 and AS-10. The engagement quality reviewer is a  
21 person that under the Board standard is intended to  
22 provide an objective review of the audit that was done



1 by the engagement team. The engagement quality  
2 reviewer does not perform procedures to help the firm  
3 obtain sufficient competent evidence to issue the  
4 opinion. Rather, that reviewer is intended to provide  
5 an objective look in order to provide concurring  
6 approval of issuance that the audit was done  
7 appropriately and the report is appropriately stated  
8 and can be issued.

9 So we are excluding the EQR. It does not fall  
10 under the 543 or AS-10 model. It would be separate.  
11 So that is an exception as far as other firms or  
12 individuals that would be disclosed.

13 Appendix K reviews, to some that may be very  
14 familiar; to others, maybe not so familiar. Appendix K  
15 refers to a requirement the Board adopted back in 2003  
16 from the AICPA's SEC Practice Section. Essentially  
17 what that Appendix K requirement is, is that for firms  
18 within a global network, it requires the U.S. firm to  
19 perform a review or have those that have knowledge of  
20 U.S. accounting and auditing and independence  
21 requirements to perform a review of the SEC filing of  
22 foreign-affiliated firms.

1           So in a global network, if there was a firm in  
2 another country as part of that network issuing a  
3 report on a U.S. public company, then the Appendix K  
4 review would come in to perform that U.S. review of  
5 that filing, or someone with expertise in U.S.  
6 accounting and auditing and independence requirements  
7 before that report is filed with the SEC.

8           So those reviews, we saw those as somewhat  
9 similar, at least in nature, to an engagement quality  
10 review. It's intended to provide a review, an outside  
11 review so the firm itself does not take responsibility  
12 or supervise the work of the Appendix K review. So we  
13 are excluding that from disclosure.

14          We are also excluding specialists. Specialists  
15 can be used by auditors, and specialists are  
16 individuals with expertise in subjects other than  
17 accounting or auditing. We are not requiring those  
18 individuals or companies to be disclosed in the audit  
19 report. Principally the reason is that based on our  
20 standards, that doesn't fall under the categories of  
21 supervision, AS-10 or 543, the work of another firm.  
22 The standard is specifically an AU-336, which has

1 specific procedures. So we saw that as somewhat  
2 different and different issues, so we have an exception  
3 for specialists.

4 And internal auditors and others within a company  
5 who may provide assistance to the auditor, we're  
6 excluding that work. And really the reason is there we  
7 saw internal audit, for example, internal audit has  
8 their own procedures they may perform. Part of their  
9 work may be assisting the auditor, but we saw that as  
10 somewhat impractical to pull out the amount of time  
11 that they're spending exactly helping the auditor  
12 versus other work they may naturally do. So we just  
13 saw some challenges and didn't think it was necessary  
14 to include them. So we have excluded them from  
15 disclosure.

16 I just realized that I didn't describe what I  
17 meant on person, which is one of the aspects of it. We  
18 recognized that individuals or companies, other than  
19 accountants per se, could be involved in providing  
20 assistance in the audit, to the auditor. It could be,  
21 for example, the auditor may feel they want some  
22 forensic help and may engage a company with forensic

1 type experience -- it's not an accounting firm -- to  
2 help them in doing fraud risk assessments and develop  
3 their responses to fraud risk.

4 So an auditor may engage an external company which  
5 isn't a registered public accounting firm to help them  
6 in connection with their fraud risk assessment and  
7 audit procedures, fraud-related type audit procedures.

8 We think that work is also important. And so our  
9 use of the term "person" comes from PCAOB Rule 1001,  
10 which would include individuals, other companies. So  
11 it was intended to be broader than just accounting  
12 firms or accountants. That's why we've used the work  
13 of person, because we recognize that there are others  
14 other than accountants that may perform work in  
15 connection with the audit.

16 All right. So, if you could move on? Oh, you  
17 did. Okay. Sorry.

18 As far as what the disclosure looks like, then, in  
19 the report, it would require the name, location, and  
20 headquarters' office of the other firm or other person.  
21 It would also require disclosure of the extent of  
22 participation. And as far as extent of participation,

1 the proposal would require that that be measured in  
2 terms of percentage of overall audit hours.

3 We considered a variety of thresholds such as  
4 should it be percentage of revenues or assets or some  
5 other number. In thinking through that, we recognized  
6 that other firms or other participants may perform a  
7 variety of work. For instance, you could think of an  
8 inventory observation. Another firm may do a count of  
9 inventory in a different country. But in addition to  
10 just count how much is there, there is valuation  
11 associated with that. So it could be that the other  
12 firm in the other country is counting, but the firm  
13 issuing the report is doing the work associated with  
14 the valuation, is it valued appropriately. So just  
15 describing, then, percentage of assets didn't make  
16 sense because both firms are involved to a significant  
17 extent in connection with just the inventory work, for  
18 example.

19 We recognized that firms routinely as part of  
20 their practice record their hours they reflect on the  
21 audit. And so we felt recording hours and measuring  
22 percentage of audit hours and total of audit effort

1 would be a measure that firms currently do and could be  
2 able to calculate. And our threshold, we came up with  
3 a threshold. We considered none, 1 percent, 10  
4 percent, something else. We thought 3 percent was a  
5 reasonable threshold, certainly looking for any  
6 feedback on that.

7       But the requirement for individual disclosure  
8 would be at 3 percent of more or of the total audit  
9 hours. So you would individually disclose that. So if  
10 you think through the math, the total amount of firms  
11 that would be disclosed, could be disclosed in the  
12 report is 33. Thirty-three times 3 is 99 percent, and  
13 the 1 percent would fall out, and we would imagine it  
14 would be less than 33 because we would hope that the  
15 auditor issuing the report would do more than just 3  
16 percent of the work. But that would be -- we initially  
17 had some questions about are we going to have pages and  
18 pages and pages. So we envisioned it would not be  
19 that, unless the font is incredibly huge I guess.

20       If the participation is below 3 percent, we're  
21 just requiring that that be disclosed in the aggregate,  
22 or the option could be that firms could disclose that

1 individually if they wanted, but that that would be up  
2 to their discretion. It would be one or the other, in  
3 the aggregate, so other participants at 2.8 percent, or  
4 it could even be larger than 3 percent as long as each  
5 individually is 3 percent.

6 The presentation is an explanatory paragraph  
7 following the opinion, and we also provide that if  
8 firms used 15 other firms that were at 3 percent or  
9 more of the total audit effort, they may want to  
10 disclose that in an appendix. So they just have a list  
11 of firms in an appendix. That's an option as well.

12 The other aspect of the proposal is in addition to  
13 when you assume responsibility or supervise other  
14 auditors, there are situations today where auditors  
15 divide responsibility for the audit with another  
16 auditor. So one auditor may audit 75 percent of total  
17 assets, and the other one audits 25.

18 The way the report is reflected today if that's  
19 the case, it just makes reference that other auditors  
20 audited 25 percent. It doesn't say the name. However,  
21 in an SEC filing, both audit reports are required to be  
22 filed with the Commission. We felt it was appropriate

1 that the report disclose the name of who that other  
2 auditor is. That would be publicly available anyway.  
3 So it has a similar requirement when you're assuming  
4 responsibility, that when you're dividing  
5 responsibility it would disclose the name of the other  
6 firm and the location of that firm.

7 I think that's it.

8 I will now open it up for any comments you may  
9 have on the proposal, including questions that we've  
10 raised in the proposing release. Interested in your  
11 feedback.

12 It looks like I have a couple, tent cards down  
13 towards the end, so I'll start with Lynn Turner, and  
14 then I think it's Gail Hanson. Is that right?

15 Lynn?

16 MR. TURNER: I think the proposal to bring greater  
17 transparency to others participating in the audit is a  
18 great advancement. I think it's long overdue and very  
19 good, and I applaud you on that, as well as identifying  
20 who the audit partner is. I think that's very good as  
21 well.

22 I do have a couple of questions, though, for you.



1 I found the release somewhat confusing in one aspect.  
2 Where it talks about and explains why you disclose but  
3 don't have the partner sign, you bring up the Janus  
4 case. And in the Janus case, the advisor, Janus  
5 itself, did not sign the actual filing document. It  
6 was signed by the trustees of the mutual fund. And yet  
7 you seem to imply in your proposal that the Janus case  
8 would apply to an audit partner. That audit partner,  
9 as long as he signed a firm's name but not his name,  
10 might be very well excluded from liability.

11 And my question was, was that your intent? Was  
12 that your interpretation of Janus, that in fact Janus  
13 would apply to an audit partner, and that Janus would,  
14 in fact, exclude that audit partner from liability?  
15 And if so, did you have any discussions with the SEC,  
16 and did the SEC staff have a view on that? That was  
17 the first question. Maybe it's for Lew, because I  
18 think Lew mentioned Janus.

19 The second --

20 MS. RAND: I think Chairman Doty is an attorney,  
21 and I --

22 MR. DOTY: If Lew is willing to let it go, that's

1 fine.

2 MS. RAND: In any event, I'm happy for any of our  
3 Board members that are attorneys to address that  
4 question.

5 MR. TURNER: There was a second piece of the  
6 question, then back to you guys after they get done.  
7 And that is, on the FRY-9 annual reports that banks  
8 file with the Federal Reserve, they obviously do  
9 disclose the name of the audit partner in those  
10 filings. So for all those banks, we do have a  
11 precedent here. Have you had any discussion with the  
12 Federal banking regulators about that? And if so, did  
13 you get any feedback as far as whether that worked or  
14 not, whether it increased liability or not? I'd be  
15 interested in knowing about that.

16 MR. DOTY: First, good questions all, Lynn.  
17 First, we have tried to take care in this proposal not  
18 to attempt to define and offer interpretations of the  
19 Federal securities laws as to which we are entitled to  
20 know, Chevron deference, whatever. So we have  
21 attempted rather in the proposing release to draw  
22 attention to the areas where there has been judicial

1 development since Central Bank and judicial development  
2 in this complex area and invite the comment of members  
3 of the bar, many of whom have been here and are members  
4 of the SAG, on where they think these issues lead.

5 Yes, we have had discussions with the SEC. We  
6 absolutely have. They have been very helpful in  
7 informing the release. We do not comment on the  
8 deliberative process of our discussions with the SEC,  
9 and I wouldn't want to try to draw them in or suggest  
10 that they have any obligation to comment here.

11 I do think we are all looking forward to seeing  
12 what the bar says about their position on liability. I  
13 would be -- I will tell you, speaking again for me and  
14 not for the Board or for any other agency, let alone  
15 the SEC, I would be surprised if the bar took the  
16 position that this changed the law or changed the  
17 liability of an engagement partner in some fundamental  
18 respect, but that is the question. And if the bar  
19 takes a different view, we'll be very interested in  
20 hearing it. And it's the reason why the question is  
21 asked.

22 MR. TURNER: So, by the language in there, your

1 intent was not to imply any conclusion one way or the  
2 other.

3 MR. DOTY: Our intent is not to affect the law of  
4 aiding and abetting, the recourse and remedies the SEC  
5 enjoys as an administrative agency, or any other  
6 Federal regulatory authority under the Federal banking  
7 statutes, for example.

8 MR. BAUMANN: I guess with respect to your other  
9 question, I will certainly be interested in any  
10 insights the banking regulators want to share with us  
11 as part of our proposal process. This may be a  
12 different scenario of being identified in the audit  
13 opinion versus being identified in a bank filing, but  
14 we haven't had a lot of analysis and discussion of that  
15 to date so far.

16 MS. RAND: Okay. I think Liz Gantnier.

17 Oh, Harrison, did you want to comment on that,  
18 Harrison Greene?

19 MR. GREENE: I don't know that we have fully  
20 vetted this concept release throughout the agencies,  
21 but -- and I don't have any information to address  
22 Lynn's questions about whether or not the disclosure

1 and the auditors, or the engagement partner's name in  
2 the FRY-9 reports, whether or not that increased their  
3 liability. I made a note down here that maybe I can  
4 check to see if we had any anecdotal evidence to that,  
5 but I can't really address that.

6 But my personal view would be I think it would  
7 serve investors and everybody else to disclose the name  
8 of the engagement partner in the report that's the  
9 public report, and I think that would just aid a lot  
10 more. It might induce the engagement partner to be  
11 more conscientious, but I think it would also help  
12 everybody to see if the audit partner rotation rules  
13 are being complied with because we get some of those.  
14 I just think that it would be a good thing.

15 MS. RAND: Thanks, Harrison.

16 Okay, Liz Gantnier.

17 MS. GANTNIER: Yeah, I think Harrison started to  
18 answer mine. I just simply have a question. Harrison,  
19 you started to answer it. You mentioned in the opening  
20 remarks that not all investors have access or the  
21 ability to attend the shareholder meeting where the  
22 engagement partner might actually be physically

1 present. And so, therefore, those that couldn't, the  
2 naming of the partner would provide them benefits. And  
3 I would just like somebody to articulate for me what we  
4 think those benefits are.

5 MS. RAND: I didn't particularly say those  
6 comments. Lew, did you want to address that?

7 MR. FERGUSON: Yeah, I said it, and I actually  
8 believe that's the case, partly in the notion that more  
9 information is better, and you can -- I mean, to the  
10 extent that over time this information becomes public,  
11 people who want to over time, if they look at the  
12 career of an auditor, you can go back and look at what  
13 other -- given auditor rotation, they'll be able to  
14 look at what other audits this person has been involved  
15 with, if they've been involved as the lead auditor of  
16 other public companies, and I think this is the kind of  
17 information that, again, over time particularly  
18 investors may find useful. You could see if these  
19 people have had industry experience. You could look up  
20 their public records in a way that, if they've been  
21 involved in other public matters, that can be easily  
22 searched through public sites that you can find things.

1 It's not easily transparent today to investors, and I  
2 think that's --

3 MS. GANTNIER: Thank you for that. I would only  
4 be concerned that if my name were, let's just say,  
5 David Duncan, that I might be confused with another  
6 David Duncan. And so I would want to be sure that  
7 there was a good control mechanism that, if you're  
8 going to start tracking engagement partners and their  
9 competency, that we have a way to be sure that the  
10 information is not misunderstood or, for example, Joe,  
11 your comments earlier on the going concern, that you  
12 said it didn't have an impact and the other guy said it  
13 did have an impact, and then you proved to him that it  
14 didn't have an impact, that we don't have sort of  
15 statistical anomalies that the data is being  
16 misinterpreted in some way. Thank you.

17 MR. BAUMANN: Liz, I think there is some other --  
18 in the proposal, I believe it also indicates some  
19 academic research that's on the behavioral side of the  
20 benefits of being identified or signing, if you will,  
21 and increased accountability from the behavioral  
22 studies. So I think that's partially the view of the

1 investors as well, that they believe that that  
2 increased accountability could improve the quality of  
3 audits. So this potentially has some audit quality  
4 improvement also.

5 MS. RAND: Okay. I have 10 minutes left according  
6 to my watch, to 5:30, and four cards up. So we'll go  
7 in the order of Gaylen, Denny, Joe, and Arch.

8 So, Gaylen, you're up.

9 MR. HANSEN: Yeah, thanks. Overall, I think it's  
10 great to see this moving along. While I would have  
11 preferred to see an actual signature in the report by  
12 the audit partner, I think that might address Liz's  
13 comment that she just brought up in a David Duncan  
14 signature that is different from David Duncan's  
15 signature. But regardless, good to see that we're  
16 going to have something on that.

17 And then I wondered if the Board considered some  
18 sort of de minimis rule. I mean, really independent  
19 contractors that are less than 3 percent, we're going  
20 to list their names anyway, and if you have interns and  
21 that kind of stuff? Really? What do you mean by --

22 MS. RAND: No. It was intended not -- no, it



1 would exclude --

2 MR. HANSEN: It excludes independent contractors?

3 MS. RAND: Well, it excludes -- if it's de  
4 minimis, as far as our proposal, that would be less  
5 than 3 percent, that they would not be individually  
6 named. You just would say "other participants." Let's  
7 just say you had one other person that did 1 percent of  
8 the work. It would just say "other participants at 1  
9 percent." It doesn't say the name.

10 MR. HANSEN: It just seems to me like that --

11 MS. RAND: We are asking questions about the  
12 threshold and other considerations.

13 MR. HANSEN: I would suggest the de minimis stuff.  
14 It's not going to make any difference to anyone.

15 MS. RAND: Well, our thought was there could be  
16 several firms involved that did less than 3 percent of  
17 the work, but then in the aggregate it could be  
18 material. It could be 15 percent or greater. So this  
19 proposal would not require the disclosure of everybody  
20 that did less than 3 percent of the work individually,  
21 but it would say you've got to aggregate that amount of  
22 work. So the investors have an understanding of how

1 much is done by other people, because it could be  
2 significant.

3       Okay, Denny Beresford.

4       MR. BERESFORD: First, just for the record, Marty  
5 made reference to the research that indicates that  
6 somehow people will become more accountable or  
7 conscientious. Notwithstanding whatever research there  
8 is, I would say that that would be very difficult for  
9 most audit partners to say that having their name named  
10 versus signing the report, signing the material that  
11 they must sign before the audit report is issued, will  
12 cause them to become any more conscientious than they  
13 are right now I think is a ludicrous argument. That's  
14 my personal opinion in having signed a few of those in  
15 the past myself. That's my view.

16       The comment I wanted to make, though, has to do  
17 with the second part. When I read the proposal, I'm  
18 not an aficionado of Appendix K, so I first thought  
19 that the exception meant that Appendix K reviewers  
20 meant that you were accepting all of the international  
21 firm's foreign affiliates. And then when I asked more  
22 specific questions, I was told, no, that wasn't the

1 case, that all the foreign affiliate firms have to be  
2 named.

3 And then when I thought about it some more I was  
4 thinking, well, wait a minute now, if you're accepting  
5 the reviewers for those, the people who actually have  
6 to go through and make sure that the work of the  
7 foreign firm was done properly and in accordance with  
8 U.S. accounting and auditing standards and independence  
9 and so forth, and those firms have already done their  
10 work according to U.S. standards and in accordance with  
11 firm international guidelines and so forth, I was kind  
12 of wondering why it's appropriate to name them now.  
13 What is it that we're trying to accomplish? So that's  
14 kind of question 1. But that kind of gets --

15 MR. BAUMANN: Can we get to question 1 first,  
16 rather than --

17 MR. BERESFORD: Well, let me just finish, because  
18 I think this will be my -- this kind of is my point.  
19 It seems to me -- and I know this is in your proposal.  
20 It seems to me that there is a question that you raise,  
21 and that is whether it really is necessary and  
22 appropriate to disclose all of the separate firms

1 within an international organization, or perhaps just  
2 to disclose the couple or whatever it might be that are  
3 not subject to PCAOB inspection, for example, what it  
4 is that would be an additional improvement or insight  
5 you might say to an investor that there is a subsidiary  
6 in the UK or a subsidiary in Mexico or a subsidiary in  
7 Canada or whatever it might be that might be 3 percent  
8 or 5 percent or whatever. I can understand why maybe  
9 having information about China, perhaps, at this point  
10 in time might be important. Anyway, that's the point I  
11 was going to make.

12 MR. BAUMANN: I think there are two different  
13 points, so let me comment on the first one first.

14 So in the case of a foreign private issuer that  
15 may be audited by XYZ accounting firm in the UK, and  
16 maybe there's five other accounting firms affiliated or  
17 not affiliated but separate legal entities from XYZ --  
18 it could be XYZ Germany and XYZ Brazil -- if they  
19 performed more than 3 percent, they'd be named. If  
20 they performed less than 3 percent, they didn't have to  
21 be named. They could be aggregated.

22 The Appendix K reviewer is an individual typically

1 in the United States who is reviewing that foreign  
2 private issuer filing, not under the supervision of the  
3 auditor of the foreign private issuer. He's an  
4 individual of the affiliated U.S. firm who is reviewing  
5 that. So the same as the EQR person, not under AU-543,  
6 not under AS-10. It's an individual outside of the  
7 engagement team. So we felt that individual, those  
8 hours need not be included. It's a pretty small point.

9 MR. BERESFORD: I must still misunderstand it.  
10 I'm thinking of Eli Lilly, for example. Eli Lilly has  
11 operations in --

12 MR. BAUMANN: It doesn't apply. Appendix K  
13 doesn't apply to Eli Lilly.

14 MR. BERESFORD: Okay. But does Eli Lilly have to  
15 report in their auditor's report, assuming this goes  
16 through, that they have operations in 86 different  
17 countries, and at least in some of those Ernst & Young  
18 is going to have more than 3 percent of their total  
19 audit?

20 MR. BAUMANN: So the second question is -- I think  
21 Jennifer has already gone through that -- whether the  
22 firm is in a network or not, they are separate legal

1 entities, and there is a misconception on the part of  
2 many people that it is one firm that is signing the  
3 report. This would put some clarity, transparency to  
4 the fact that who is the principal auditor and who are  
5 the other firms, and they could be part of the network  
6 or not. But they are separate legal entities. They  
7 are separately inspected by the PCAOB.

8       One part of the network could have very few  
9 comments in Part 1 of their report. Another firm could  
10 have many comments in Part 1 of their report and would  
11 look quite different. This would shed light onto who  
12 the different players were in that, and it would also  
13 shed light on some of those firms that have not yet  
14 been subject to inspection, or not even registered with  
15 the PCAOB.

16       So that's the rationale behind that.

17       MS. RAND: Lew Ferguson.

18       MR. FERGUSON: It's also important to understand  
19 that the relationship between these firms, even though  
20 they're separate legal entities, they're not parent and  
21 subsidiary. They're corporations that are not commonly  
22 controlled. They're entirely separate entities joined

1 together in an affiliate, in a network most often.  
2 They voluntarily agreed to be part of this network. So  
3 it's not -- you don't have the kind of legal control  
4 that you would have in a parent-subsidiary or commonly  
5 controlled holding company structure, and I think  
6 that's important for investors to understand.

7 MS. RAND: Okay. One more card went up after I  
8 thought I was down to two, I think. So, Jeff, I'll let  
9 you have the last word. But please, no more other  
10 cards.

11 I know, Joe is next.

12 MR. CARCELLO: Thanks, Jennifer.

13 Two really questions, I guess, so let me do them  
14 one at a time, if I could, because they're not exactly  
15 related.

16 When you talk about disclosing the location of  
17 other participants in the audit, and my understanding  
18 of how you would have them do that, how the auditor  
19 would do that, it would be a disclosure of the country,  
20 of the headquarters' office location. So assuming my  
21 understanding is correct, could a firm be established  
22 in another safe jurisdiction, let's say Australia, but

1 where all the staff of this firm are located in a risky  
2 jurisdiction? And I'll let you use your imagination  
3 for what a risky jurisdiction is.

4 So the disclosure is designed to highlight for  
5 investors. We are using this firm for X percent of the  
6 audit, and it's in this country, and if you think this  
7 country is risky either because of whatever reasons or  
8 because the PCAOB can't inspect there, whatever reason,  
9 forewarned is forearmed. So I try to drive around that  
10 rule by establishing a firm in a jurisdiction, in a  
11 country where investors would say, well, that's fine,  
12 that's a safe jurisdiction, but yet all of my staff is  
13 out of and sourced from a country that is potentially  
14 problematic. Do you understand the question? It's  
15 kind of subtle.

16 MS. RAND: Well, you said Australia, so let's say  
17 they're using it from another country, all their staff  
18 are essentially from another country.

19 MR. CARCELLO: Yeah, yes.

20 MS. RAND: So I guess technically then you would  
21 list Australia.

22 MR. CARCELLO: Yeah, that's the way this law is



1 written.

2 MS. RAND: But then that Australia firm would have  
3 to be able to meet the standards that they're able to  
4 effectively supervise them as employees if they're in  
5 another country. I mean, so we've seen situations in  
6 the practice alert issued a year ago talking about the  
7 use of other auditors or firms taking responsibility,  
8 or using people in another country as assistants where  
9 we've had inspections -- where we've written up  
10 deficiencies in connection with that. We've raised  
11 concern about they really weren't being supervised as  
12 employees. So I would expect that that scenario that  
13 you described could be, but the firm has to meet a high  
14 bar that the Australia firm, for example, to make sure  
15 that they can effectively do that.

16 MR. CARCELLO: Just to make sure you guys, if you  
17 haven't thought about it, think through that.

18 And then the second issue -- and Lew really teed  
19 this up, I thought, very nicely in the public meeting,  
20 and you didn't have a chance to hit everything in your  
21 presentation, Jennifer -- but the issue of offshoring.

22 You didn't mention that because you didn't have

1 enough time, but I want to highlight that. In your  
2 concept release you say, "An accounting firm could  
3 establish an office in a country with a relatively low  
4 cost of labor and employ local personnel to perform  
5 certain audit procedures on audits of companies located  
6 in the country of the accounting firm's headquarters or  
7 in a third country."

8       So again, let me articulate this. So a U.S. firm  
9 could open an office of the U.S. firm in a country that  
10 has low cost of labor, and they could do 5, 10, 15, 20  
11 percent of the audit work. Under this proposal it's  
12 not highlighted. I think that's why Lew said he wanted  
13 comments on this.

14       Now you would say when you inspect that U.S. firm,  
15 you inspect that, and you may inspect their quality  
16 control procedures, but if it's in a country that  
17 doesn't let you in, you're still not getting in.  
18 You're not allowed on the ground. And some of these  
19 countries have very, very different cultures than the  
20 United States, completely different cultures in terms  
21 of investor protection and skepticism and so forth,  
22 completely different education systems, dramatically

1 different.

2 And so I don't know if it's really a question.

3 It's really more of a comment for the group,  
4 particularly for investors, to make sure you don't  
5 overlook that.

6 MS. RAND: Well, I'm glad you raised the point of  
7 offshoring because it is something that we described or  
8 discussed in the proposal and do have questions around  
9 it. The situation, the issue about education,  
10 training, culture, all of that, it's an issue broader  
11 than just offshoring. It's kind of use of other firms  
12 and other countries, and the quality associated with  
13 the work.

14 The issue in the proposing release that we were  
15 teeing up on offshoring is it's our understanding firms  
16 are offshoring work to areas and places where there is  
17 a lower cost of labor, for example, and some of that  
18 work is being described as just doing compiling files,  
19 not really significant judgment type of work.

20 The way the structures, though, are being  
21 organized can vary by firm. So they could be setting  
22 up an office in another country, but it might as well

1 be Dallas. They're saying it's still part of the U.S.  
2 firm even though it's overseas in Country X. So in  
3 that situation, the way this proposal would not pick  
4 that up if a firm had set up an office in some other  
5 country because it's technically being part of the U.S.  
6 firm. But there are situations where firms, where that  
7 offshore work is part of a separate firm.

8 MR. CARCELLO: And then it's picked up.

9 MS. RAND: And then it would be picked up.

10 MR. CARCELLO: Exactly.

11 MS. RAND: So we are asking questions about the  
12 nature of that work and kind of how this disclosure  
13 works.

14 MR. BAUMANN: I think that issue of the offshoring  
15 is evolving, and as we gain more understanding about  
16 that, we may think about that differently in the  
17 disclosure. But right now in the proposal we describe  
18 it and ask comment and would investors want to know  
19 more about that in the disclosures we're requiring  
20 here. So it's a good point, Joe.

21 MS. RAND: I appreciate everyone continuing to  
22 stay past 5:30, but we just have two left, Arch, and

1 then Jeff Mahoney.

2 So, Arch?

3 MR. ARCHAMBAULT: Thanks, Jennifer. Just a few  
4 points I'd like to make.

5 First of all, like Denny, I really have to reject  
6 the notion that the disclosure of the name somehow is  
7 going to incent a partner to perform better. I simply  
8 wouldn't want someone as a partner whose behavior in  
9 some way would change simply because his or her name  
10 was in the audit report.

11 Another thing is I do find it disturbing that the  
12 public statements around this issue in the release  
13 often seem to be directed at investors being able to  
14 search for publicly available disciplinary action  
15 against the partners, which strikes me as negative,  
16 very negative, quite frankly. And so if there is some  
17 negative reaction to this, I wouldn't be surprised at  
18 all.

19 But having made those points, I really don't have  
20 any objection to naming the partner in the audit  
21 report. Investors, if they want to, can find out the  
22 name, and this is simply going to make it easier for

1 them to have that name.

2 Lew mentioned the liability side of things. I'm  
3 certainly not an attorney, but I don't suspect under  
4 10B that it's going to actually increase the liability  
5 for a partner. I think what will happen, though, is  
6 that you'll probably see more partners named in  
7 litigation that comes up. Plaintiffs will use that as  
8 a tool. The name is there. In the current situation,  
9 the name is not there. They always have the ability to  
10 amend a complaint and add the name, and they sometimes  
11 do that. But I think we'll see more partners named.

12 A question, though, in my mind comes up with  
13 Section 11 and whether or not having the partner's name  
14 in there is going to in some way require the partner to  
15 sign consents, which is something possibly the SEC is  
16 considering.

17 I'll mention quickly Form 3. We didn't talk about  
18 it much, but changes in the partner other than on the  
19 rotation. I think that can be problematic because  
20 there could be reasons for a change that, quite  
21 frankly, other laws would preclude you from disclosing,  
22 like HIPAA, and we've had situations like that, health

1 reasons. So what do you do in those circumstances? Do  
2 you just disclose that a change was made but you don't  
3 say the reason? That would raise a lot of confusion if  
4 you have to disclose other changes where you did  
5 explain the reason. So a consideration there.

6 The disclosure of the other participants. Again,  
7 I don't have a real objection to that, but I'm really  
8 wondering what we're trying to do. What I've heard  
9 many, many times is that the investors want to know the  
10 other firms, including network firms that have  
11 participated in the engagement, so that they can see  
12 whether those firms have been inspected. In other  
13 words, they're registered and have been inspected.

14 So it seems to me that we ought to try and keep  
15 consistent with other requirements of the PCAOB in  
16 terms of the threshold, because otherwise you can end  
17 up with a long list of names which I'm not sure what  
18 useful information is being provided if they are  
19 looking for those firms that have been inspected.

20 In the release itself, the examples of the  
21 disclosure you give, 60 percent of the engagement was  
22 done by firms other than the ones signing the report is

1 how I read that. Well, without explaining, in effect,  
2 why the signing firm feels they have the ability to  
3 sign that report when 60 percent was done by someone  
4 else, and those percentages could actually go up, I  
5 think it could raise a lot of confusion there as well.

6 Form 2, again, I don't really object to the  
7 disclosure in Form 2. It seems quite duplicative. It  
8 seems like there could be confusion between a name  
9 reported in Form 2 but then a different partner  
10 actually comes out and is named in the audit report.  
11 So I'd try and search for a way to maybe do it in one  
12 place so there would be consistency. And while there  
13 would be a lag because of the Form 2 timing, I'm not  
14 sure that would be that critical.

15 So just some thoughts to throw out for your  
16 consideration.

17 MS. RAND: I'd like to comment on a few of them.  
18 You had several thoughts, but there are three I wanted  
19 to touch on.

20 One, you talked about the engagement partner, and  
21 I guess just talking about you didn't really see that  
22 it would -- I forget the exact word you used, but



1 really go into improving their accountability or sense  
2 of accountability.

3 I think the main aspect of the proposal is to  
4 improve transparency. We've been hearing a lot from  
5 investors. Potential -- the release talks about there  
6 could be an effect of increasing a sense of  
7 accountability, but the significant reason is  
8 increasing transparency to investors.

9 As far as reasons, you talked about there could be  
10 a change in engagement partner for reasons other than  
11 rotation. The proposal is not requiring that any  
12 reason be described. It doesn't have that at all.  
13 We're asking questions about should other information  
14 be provided, but we're just saying you just disclose  
15 the name of the engagement partner. So it's not  
16 stating that you would have to provide a reason.

17 And as far as registration and inspection, there  
18 is an aspect -that I want to highlight you talked  
19 about, having them be consistent thresholds. As far as  
20 the Board's registration and inspection threshold is  
21 the Board requires firms to be registered with us, and  
22 therefore inspected. If they audit an issuer, so

1 they're signing the report, or they play a substantial  
2 role, and substantial role is defined as 20 percent of  
3 the audit hours or 20 percent of revenues, et cetera,  
4 of their metrics.

5       In considering this proposal for providing  
6 transparency to investors of the other participants in  
7 the audit, we considered that registration threshold  
8 and inspection of the 20 percent, for example, and felt  
9 that several -- if we just went with that threshold,  
10 that other firms would not be disclosed, and kind of  
11 thinking would you just disclose those that had been  
12 inspected or highlight those that have not, there's a  
13 lot of considerations that come into that. We haven't  
14 gotten access into certain countries, but maybe today  
15 we get access. So do we not include them on the list  
16 if we didn't have them today, or even if they'd been  
17 inspected, there could be significant Part 1 findings  
18 in the inspection. So just the fact that they're  
19 inspected doesn't mean that there aren't issues with  
20 the firm.

21       So we're just providing -- you know, the  
22 disclosure is providing a list of names. So at any

1 point in time, investors and others can go and see if  
2 the firm was registered, inspected with us, if we're  
3 able to perform inspections, et cetera. So there's a  
4 lot of considerations behind that.

5 MR. ANDRIYENKO: Yeah, I just wanted to add that a  
6 firm may be registered with the PCAOB because of its  
7 significant participation in another audit. In this  
8 particular one, the firm might have done less than 20  
9 percent, let's say 7 percent. So nonetheless, you may  
10 have several of those even though the firm performed  
11 less than 20 percent. That would be a registered firm.  
12 So if you went with the 20 percent disclosure, you may  
13 miss one or two of those firms.

14 MS. RAND: Okay, Jeff Mahoney, you've got the last  
15 word.

16 MR. MAHONEY: Thank you very much.

17 The Council generally supports the proposal. I've  
18 not issued a comment letter yet. We did issue a  
19 comment letter, as you know, in response to the earlier  
20 concept release.

21 I'll just note a few points. This proposal with  
22 respect to the engagement partner name, it's generally

1 consistent with the recommendations of the U.S.  
2 Treasury Department's Advisory Committee on Audit  
3 Profession. That committee was composed of a diverse  
4 group of investor, business, academic, and  
5 institutional leaders, including the CEO and chairman  
6 of one of the big-four accounting firms and some very  
7 prominent, respected corporate board members, including  
8 members of audit committees of prominent companies.

9       The committee concluded that mandating the  
10 signature of the engagement partner in the auditor's  
11 report would "increase transparency and  
12 accountability." This recommendation I recall was  
13 initially brought to the committee by a former big-four  
14 audit partner who believed that this would be a simple  
15 change that would make a significant improvement to the  
16 auditing profession, and his focus was on  
17 accountability. He thought it would improve self-  
18 policing of partners at his former firm.

19       I also note it was explicitly endorsed by Don  
20 Nicholiason, who co-chaired that committee, former SEC  
21 chief accountant, and who is a board member, member of  
22 the audit committee at the time of the Treasury

1 Department work. It was also explicitly endorsed by a  
2 number of investor and other financial statement users,  
3 including several public pension funds, capital  
4 research and management company, Hermes Equity  
5 Ownership Services, Ltd., to name a few.

6 For those who advocate moving to best practices in  
7 other countries, I would note that since 2006 statutory  
8 audits of annual consolidated accounts in the European  
9 member states have required audit partner signatures,  
10 and pre-dating 2006 a number of countries, including  
11 Germany, France, Luxemburg and others have required  
12 audit partner signatures as well. So it has been in  
13 place for quite a long time in other places around the  
14 world.

15 I'd also note that, as I mentioned earlier, a  
16 growing number of public companies consistent with  
17 Council policies now have an annual vote on the  
18 retention of auditors. There is not a lot of  
19 information for investors to make that vote, and as Lew  
20 pointed out, this would be another data point that over  
21 time could provide some relevant information to  
22 investors so that they could make a more informed vote

1 on that annual retention vote.

2 Thank you.

3 MR. BAUMANN: Thanks, everybody, for your  
4 incredible engagement today, your comments pro and con  
5 on various positions, but helping us think through very  
6 tough issues. So we really appreciate and value the  
7 contributions of the SAG members, and it was really  
8 demonstrated today.

9 Hopefully, we'll see many of you or all of you at  
10 6:30 at the Madison.

11 If not, I'll see you tomorrow morning at 9:00 a.m.

12 Thank you.

13 [Whereupon, at 5:51 p.m., the meeting was  
14 adjourned.]

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# Improving the Transparency of Audits

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# Improving the Transparency of Audits

- Proposed Amendments to PCAOB Auditing Standards and Annual Report Form
  - Issued on October 11, 2011
  - Comment period open until January 9, 2012
- Improve transparency of audits by requiring the disclosure of:
  - Engagement partner, and
  - Accounting firms and other persons that took part in the audit



# Disclosure of the Engagement Partner

- Builds on the July 28, 2009 Concept Release on Engagement Partner Signature
- Modifies the approach in Concept Release
- Details of the disclosure:
  - Audit Report
    - Engagement partner's name
    - For the most recent reporting period
    - Special situations – multiple-periods, dual-dating
  - Annual Report Form (Form 2)
    - Names of engagement partners

# Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

## *When assuming responsibility or supervising*

- Applicable when the auditor:
  - Assumed responsibility for the work of another firm in accordance with AU sec. 543, *Part of Audit Performed by Other Independent Auditors*,
  - Supervised the work of another firm in accordance with Auditing Standard No. 10, *Supervision of the Audit Engagement*, or
  - Supervised a person not employed by the auditor that performed audit procedures on the audit in accordance with Auditing Standard No. 10.

# Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

*When assuming responsibility or supervising*

□ Exceptions:

- EQR and Appendix K reviewers
- Specialists
- Internal auditors, other company personnel, or third parties working under the direction of management or the audit committee, who provided direct assistance in the audit of internal control over financial reporting
- Internal auditors who provided direct assistance in the audit of the financial statements

# Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

## *When assuming responsibility or supervising*

- Details of the disclosure:
  - Name, location of headquarters' office or residence
  - Extent of participation:
    - As of the report date
    - 3% and more of total audit hours – separately
    - Below 3% – other participants may be aggregated or reported separately
- Presentation:
  - Explanatory paragraph, or
  - Explanatory paragraph and appendix

# Disclosure of Other Accounting Firms and/or Other Persons That Took Part in the Audit

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## *When dividing responsibility*

- ❑ Requires disclosure of the other auditor's name and location in the audit report
  - Existing requirement to disclose the portion audited by the other auditor is unchanged
- ❑ Removes requirement to obtain permission to disclose the other auditor's name

## SAG Member Discussion

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SAG members will be invited to comment on the proposed amendments, including the questions raised in the proposing release