

**NOTICE:** This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on April 8, 2010 that related to the Board's proposed auditing standards related to the auditor's assessment of and response to risk. The other topics discussed during the April 8, 2010 meeting are not included in this transcript excerpt.

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7 MR. BAUMANN: Okay, thank you. Well, the  
8 final item on our agenda, as we move towards a  
9 close, as I mentioned, the proposed and then re-  
10 proposed standards on the auditors identification  
11 of risk and the auditor's assessment and response  
12 to that risk. And these risk assessment standards  
13 that go right from planning and supervision, right  
14 through collecting of audit evidence, I think there  
15 are critical standards foundational in their nature  
16 to where our future standard setting goes.

17 Keith Wilson has been leading the project  
18 on the risk assessment standards. As I mentioned  
19 the comment period closed on March 2nd. Keith is  
20 working closely with the rest of the staff and with  
21 me, moving towards a final proposal of -- final  
22 issuance of those standards with a target for the

1 third quarter.

2 Keith -- I've asked Keith to give an  
3 update on the comments that were received as part  
4 of the re-proposal.

5 MR. WILSON: Thank you, Marty. As he  
6 mentioned, my objective here is to brief you on the  
7 comments that we received so -- on the proposal,  
8 and not -- we're still in the process of analyzing  
9 them. So we don't have formal conclusions or  
10 recommendations to the board at this time, but we  
11 wanted to try and give you a bit of a sense of some  
12 of the comments that we've received.

13 I also should preface my remarks by  
14 saying that I realize that some of you around this  
15 table may have actually participated in drafting  
16 comment letters and providing those comments to us.

17 The natural part of this process is we have to  
18 winnow some of them for this presentation. So you  
19 may not see every comment that you had placed in a  
20 comment letter, but please, rest assured that we  
21 are carefully looking at each and every comment.  
22 And we'll plan to make an appropriate response to

1 those.

2           Before I actually get into the individual  
3 slides, let me just quickly for those who haven't  
4 been following this project as closely, give you a  
5 just a quick overview of the standards themselves,  
6 what's involved in this suite of seven, as some  
7 have called it. And then we'll move right into  
8 comments.

9           The first standard is standard on audit  
10 risk, which describes in general terms the  
11 components of audit risk and the auditor's  
12 consideration of audit risk in both from the  
13 assessment and the developing procedures to respond  
14 to risk.

15           Audit planning and supervision in the  
16 second standard, as the name implies, it describes  
17 the auditor's responsibilities for planning the  
18 audit and for supervising engagement team members.

19           And that would include things like deciding which  
20 matters are important to audit planning, and  
21 setting an appropriate audit strategy and plan.

22           The third standard called consideration

1 of materiality in planning and performing an audit  
2 describes the auditor's responsibilities for  
3 applying the established concepts of materiality  
4 and planning the audit and performing audit  
5 procedures and determining in effect the scope of  
6 the audit.

7           The standard identifying and assessing  
8 risks of material misstatement describes the  
9 auditor's responsibilities for performing  
10 procedures to identify and assess the risks of  
11 material misstatement and the companion standard to  
12 that, the auditor's responses to the risk of  
13 material misstatement describes the  
14 responsibilities for developing overall responses  
15 to the way the engagement is conducted, as well as  
16 developing specific procedures to respond to the  
17 risks that have been identified.

18           Evaluating audit results is a standard  
19 that describes the process, the auditor's  
20 responsibilities for evaluating the evidence that  
21 they've obtained during the audit and determining  
22 whether or not they've obtained sufficient

1 appropriate evidence to support their conclusions  
2 expressed in the auditor's report.

3           And finally, the standard on audit  
4 evidence talks more about the sufficiency, what  
5 sufficiency and appropriateness of audit evidence  
6 means and what procedures the auditor might perform  
7 to obtain that evidence.

8           All right. This time, we have -- we've  
9 received 23 comment letters down somewhat from the  
10 prior year. The profile here as we've described,  
11 there are 10 from auditing firms. There are -- we  
12 received six comment letters from what I call  
13 associations of accountance or firms. So that  
14 would be like state societies, three international  
15 associations of accountants, and the Center for  
16 Audit Quality.

17           The academics -- one of those commenters  
18 in the academic column is the Auditing Standards  
19 Committee for -- of the American Accounting  
20 Association. And then there was an individual  
21 academic.

22           In the last category, other includes

1 CALPERS, the Institute of Internal Auditors, the  
2 GAO, the U.S. Chamber of Commerce, and an  
3 individual who's apparently a consultant.

4           Just as a general observations, I would  
5 say that most of the commenters did acknowledge and  
6 recognize that there were improvements in the re-  
7 proposed standards as compared to the original  
8 standards. And I say that for two reasons. It was  
9 -- in some cases, the commenter specifically  
10 acknowledged improvements, supported some of the  
11 changes that we'd made affirmatively. And also,  
12 there was a substantial reduction in the number of  
13 comments in these -- to the re-proposal as compared  
14 to the original proposal.

15           In general, the themes that we saw in the  
16 comment letters were substantially the same as the  
17 comments that we received on the original proposal,  
18 but the specific comments may have changed.

19           So for example, one of the area -- the  
20 key objectives of this project, we were -- as been  
21 said, was to try and create better alignment  
22 between the standards for assessing and responding

1 to risk and the board standard for auditing  
2 internal control over financial reporting, AS 5.

3 And there were a number of comments on  
4 the original proposal about suggesting ways to  
5 improve the alignment. And we made a number of  
6 changes in that area for the re-proposal. The  
7 commenters seem to -- some of them specifically  
8 supported those changes that we made in that area.

9 And we really had a substantial reduction in the  
10 number of comments. I think the primary -- we had  
11 one commenter who suggested a number of amendments  
12 to AS 5 in light of the re-proposed risk assessment  
13 standards. But generally, there seem to be an  
14 acknowledgement that there is good alignment  
15 between the standards now.

16 Some -- we did have a number of  
17 commenters who continued to make statements about  
18 supporting -- reducing unnecessary differences with  
19 the standards of the IAASB and the ASB. Some used  
20 words like "convergence." Others, "align." Some  
21 said "reducing unnecessary differences," but all in  
22 that same sort of vein.

1           And some -- one area that we receive  
2 quite a bit of comment, and maybe the largest  
3 single area, in fact, was asking more information -  
4 - asking for more information, more explanation  
5 about how these re-proposed standards would affect  
6 audits. What were we expecting auditors to change?

7           And what's the board's rationale? Just more  
8 information about those kinds of questions.

9           They -- the comments varied in terms of  
10 the types of specific information they wanted, the  
11 form of the information that they were looking for,  
12 but certainly that's an area that's going to  
13 require a lot of thinking and study on our part, in  
14 terms of coming up with a way to more effectively  
15 describe the changes that we would expect these  
16 standards to have on audits.

17           We had -- we did have some commenters  
18 that acknowledged that some changes that the board  
19 had made in the standard setting process, and  
20 efforts to improve transparency such as having a  
21 concept release, or in this case, a second proposal  
22 of the standards, so some of those -- and just some

1 general observations about things that we've done  
2 in terms of publishing our agenda and keeping  
3 updated on that.

4           There were other -- a host of other  
5 recommendations on improving the standard setting  
6 process in general. Probably the most common was a  
7 recurring suggestion to use external tax forces in  
8 the process of drafting standards and various  
9 comments along those lines.

10           There were -- as a -- as been mentioned a  
11 couple of times already, one of the big areas of  
12 focus in this project was to try and integrate the  
13 requirements for the auditor to assess and respond  
14 to fraud risk as part of this risk assessment  
15 standards. And we -- on the original proposal, we  
16 received a number of comments about this. They  
17 were quite missed. Some were very supportive.  
18 Some had concerns. Some were neutral.

19           We had fewer comments this time, but we  
20 continued to receive some comments about that. And  
21 again, it's mixed. Some support it quite strongly.  
22 Some are more concerned about that approach.

1           And we did have -- I think has been  
2 mentioned at least a little bit, one of the  
3 important points of emphasis in the re-proposal as  
4 compared to the original proposal, is a number of  
5 new requirements related to -- they were intended  
6 to focus the auditor on the area of disclosures.

7           And so, in some of the standards, their  
8 requirements for -- as part of obtaining an  
9 understanding of the company and the environment to  
10 develop expectations, I'll say, of the types of  
11 disclosures that they had expect to see in the  
12 financial statements.

13           In terms of thinking about assessing risk  
14 or brainstorming about fraud risk, to think about  
15 ways that the financial statements might be  
16 misstated by omitting disclosures or providing  
17 incomplete disclosures. And then a more focused  
18 discussion in the standard on evaluating the  
19 financial statements, more discussion about  
20 specifically evaluating the disclosures in the  
21 financial statements.

22           Commenters generally supported the new

1 requirements. We did get some specific comments  
2 for requests for clarification about these -- the  
3 specific requirements that we had. And I'll  
4 discuss those as we get in the particular  
5 standards, but I think generally, commenters seem  
6 to be supportive of those additional requirements.

7 Training the specific standards, the  
8 audit risk standard, as I mentioned, it describes  
9 the individual components of audit risk, the risk  
10 that the financial -- that the auditor would issue  
11 an inappropriate opinion when the financial  
12 statements are materially misstated.

13 And we had some requests in the comments  
14 for some additional discussion about some of the  
15 points that we had covered in there.

16 For example, when we talked about risks  
17 at the financial statement level, the one had more  
18 discussion about how those kinds of risks would  
19 result in misstatement of the financial statements.

20 So for example, if there was a decline in  
21 the company's industry, how would that potentially  
22 result in material misstatement of the financial

1 statements? They wanted the standard to talk about  
2 that more.

3 And also, to talk a little bit more about  
4 some of the points about how the auditor considers  
5 risk and develops procedures to respond to risk.

6 The planning and supervision standard, as  
7 the name suggests, and as the interim -- like the  
8 interim standard it would replace, covers both  
9 audit planning and supervision. And we received  
10 comments that along the lines of these are, in  
11 fact, separate topics. They may have some  
12 relationship, but they're really separate topics.  
13 So they ought to be in separate standards.

14 So if we follow those recommendations, I  
15 guess we would end up with a suite of eight  
16 standards instead of a suite of seven standards.

17 There were some comments about the role  
18 of the engagement partner and the responsibilities  
19 in here. And I guess by way of background, the  
20 standard starts off early on by saying that the  
21 engagement partner is responsible for the  
22 engagement and its performance. And therefore,

1 they're responsible for planning and supervision,  
2 but they may seek assistance from other engagement  
3 team members.

4           From that point following in the  
5 standard, we use the word "auditor" in the standard  
6 to encompass both the engagement partner and others  
7 who are involved in the process. And there were  
8 some requests to lay out in the standard the  
9 linkage between the engagement partner and auditor  
10 responsibilities as we describe it in the standard.

11           One area that was a significant area of  
12 change relates to the scoping for multi location  
13 engagements. And that refers to how the auditor  
14 determines how much work to do at individual  
15 locations when there's a multi location engagement.

16           We had a number of commenters on the  
17 original proposal that essentially said you should  
18 align this -- these requirements more closely with  
19 AS 5. And you should make it more risk based.

20           So we did that. And there seemed to be  
21 support for that, but there were a couple of points  
22 that they wanted to -- that commenters called our

1 attention to.

2           One is there's a specific requirement in  
3 the standard for varying the procedures at  
4 locations from year to year. That requirement  
5 parallels a similar requirement in AS 5. And  
6 commenters suggested that that was too  
7 prescriptive, it was unnecessary because we do have  
8 another standard that more generally requires the  
9 auditor to incorporate an element of  
10 unpredictability. And they were suggesting that  
11 this specific requirement could be made an example  
12 of the more general requirement in our standard.

13           There were also specific requests, going  
14 back to a topic that we covered -- that we talked  
15 about yesterday, the -- how would the requirements  
16 we have for scoping multi location engagements  
17 apply when there's another auditor involved? And  
18 specifically, when there's divided reporting  
19 responsibility kinds of situations?

20           So a request for at least an explanation,  
21 if not some kind of addition -- modified provisions  
22 to address those situations.

1           Another area that we made a significant  
2 change in the re-proposal versus the original  
3 proposal is in the area of considering the need for  
4 persons with specialized skill or knowledge.

5           The original proposal had said that -- it  
6 required the auditor to consider as part of  
7 planning whether or not they needed a person with  
8 specialized skill or knowledge in order to  
9 effectively conduct the audit in essence. And  
10 there were also -- there's also a requirement in  
11 there related to the knowledge that the core audit  
12 team needed of the subject matter in order to  
13 effectively deal with the person with specialized  
14 knowledge or skill.

15           Some of the original requirements were  
16 framed in terms of IT specialists, because that was  
17 what the -- our existing standard frames the  
18 requirement. We had a lot of comments to the  
19 original proposal that said broaden it to include  
20 anyone with specialized skill or knowledge. And we  
21 did that. And so, we seem to get support for that  
22 change.

1           They did have -- and there were a couple  
2 of drafting suggestions for it, but one --  
3 commenters also took the opportunity to provide  
4 some of their views on when someone -- when a  
5 specialist should be under the general requirements  
6 for supervision versus when they should be under a  
7 separate standard for using an auditor specialist.

8           So some of those, we're going to analyze  
9 those comments. Some of them may be more  
10 applicable to the separate specialist project. And  
11 if they don't get picked up and addressed as part  
12 of this project, certainly they would be something  
13 we would consider in the follow-on specialist  
14 project.

15           A -- and on the standard on materiality,  
16 there were three significant changes to that -- to  
17 the re-proposal, which sparked comments.

18           The first was a change in the  
19 articulation of the concept of materiality. The  
20 original proposal we had used a quotation that  
21 existed in our existing interim standard, that is  
22 from a FASB Concept Statement number 2, that

1 describe materiality. And we had a footnote that  
2 referenced the applicable interpretation of the  
3 federal courts in interpreting the securities --  
4 federal securities laws.

5           And during the intervening time between  
6 the original proposal and the re-proposal, of  
7 course, FASB released its codification, which as  
8 you know, doesn't include the concept statements.  
9 So that caused us to pause and reflect on this  
10 discussion. And what we came back to was actually  
11 the standard that does apply in these situations,  
12 which is the standard that's articulated by the  
13 courts.

14           So our standard now says -- now uses the  
15 articulation from the federal court decision that  
16 states a fact is material if there's substantial  
17 likelihood that the fact would have been viewed by  
18 the reasonable investor as having significantly  
19 altered the total mix of information made  
20 available.

21           So in re-proposal, that's the  
22 articulation that we use. And it -- because it is

1 in fact the standard as I mentioned that's used.

2 And it does also make clear that the concept of  
3 materiality that applies here should reflect the  
4 perspective of a reasonable investor.

5 And comments on this area ranged from  
6 some requests for some additional discussion about  
7 how this concept is applied in an accounting sense,  
8 to some actual just concerns about using a court --  
9 language from the federal courts in an auditing  
10 standard.

11 Another area that drew some comment, we  
12 included another sentence in the standard -- the  
13 standard requires that when planning the audit, the  
14 auditors should establish a materiality level for  
15 the financial statements that's appropriate in  
16 light of the particular circumstances. And we'd  
17 added a statement that said that this includes  
18 consideration of the company's earnings and other  
19 relevant factors. That was really intended to be  
20 just an acknowledgement of the fact that typically,  
21 for these kinds of companies, earnings is the most  
22 significant factor.

1           But we did have some commenters asking  
2 questions along the lines of well, does that mean  
3 you always have to use earnings? Does earnings --  
4 is that required universally in each case? Is our  
5 intention -- what did we mean by other relevant  
6 factors. So really, that's more asking for I would  
7 say clarification on that point.

8           Then another area that was a change in  
9 the re-proposal was we added specific provisions  
10 related to determining materiality for -- in multi  
11 location audits at the individual component level.

12          So determining the materiality at an individual  
13 business unit or location.

14          And the -- there was a general principle  
15 articulated in the requirement to say that the  
16 materiality at that individual location or  
17 component level cannot exceed and generally should  
18 be less than materiality for the financial  
19 statements as a whole.

20          And we received some generally favorable  
21 comments for adding this requirement, but there  
22 were some requests, again, for specific additional

1 clarification on, for example, how you would apply  
2 this again in a divided reporting scenario when  
3 there was another auditor involved.

4 In the identifying and assessing risks of  
5 material misstatement standard, we have received --  
6 continued to receive comments on a requirement to  
7 consider performing additional procedures, which  
8 involve things such as reading public information  
9 about the company, such as analyst reports, reading  
10 transcripts of earnings calls, obtaining  
11 information about trading activity in the company's  
12 securities by significant holders to identify  
13 potentially significant unusual developments.

14 And most of the comments in this area are  
15 really around scope, what are the expectations? Do  
16 we expect auditors to go out and track down every  
17 single piece of publicly available information  
18 about the company and affirmatively document that  
19 and check off do we intend for them to look at it  
20 or not?

21 So this, again, is another example of  
22 trying to provide some requests for clarification

1 about what the expectation of performance is.

2           Then for the areas where -- the  
3 requirements that I mentioned about obtaining and  
4 understanding about necessary financial statement  
5 disclosures and some of those requirements that  
6 want -- the commenters asked us to be sure to  
7 clarify that we're talking about evaluating  
8 disclosures in the context of the applicable  
9 financial reporting framework.

10           And there were -- in the area of  
11 obtaining an understanding of internal control over  
12 financial reporting, we have -- in order to  
13 determine how -- the extent of the understanding  
14 that's needed, the standard outlines certain  
15 objectives that the auditor needs to meet overall.

16           And that's supposed to guide the auditor through  
17 the process of determining for each component of  
18 internal control, how much information that they  
19 need. There's still some -- in the area of when we  
20 get down to control activities, there's some  
21 concern about whether or not -- what our  
22 expectations are in terms of how much understanding

1 of control activities there are? Are we intending  
2 the auditor to look at all control activities? Or  
3 are we really intending there to be a significant  
4 change in practice related to that. So again, a  
5 request for clarification on that point.

6 And then finally, on this standard, the -  
7 - we have a requirement, which really is carried  
8 forward from our existing requirements for the  
9 auditor to consider information obtained from other  
10 engagements.

11 And that information, we had two types of  
12 comments on that requirement.

13 MALE SPEAKER 1: That's other engagements  
14 for the issuer.

15 MR. WILSON: Yes, other engagements for  
16 the company. Yes. And they -- some people felt  
17 like this was too broad. And there were  
18 suggestions to either go back and use some  
19 additional language that's in our existing  
20 requirement, or to alternatively frame this in  
21 terms of the engagements performed by the  
22 engagement partner, as opposed to by the firm.

1           So those -- that would, in fact, if we  
2 went to engagement partner, that would in fact be a  
3 change from our existing standards and our existing  
4 requirement.

5           For the auditor's response standard,  
6 there are requirements -- we spent a good bit of  
7 time here in trying to frame the auditor's  
8 responsibilities around using information from  
9 prior audits to -- in the evaluation of the  
10 effectiveness of controls. And we have like in  
11 some respects AS 5, this standard requires the  
12 auditor to obtain evidence each year about controls  
13 that they're going to rely on.

14           But it does allow the auditor to use  
15 evidence from prior year and information about risk  
16 in determining how much additional information they  
17 need in the current year.

18           And so, we had comments on this  
19 requesting that we add some additional language to  
20 make clear that this could be -- that the  
21 information from prior year could inform the  
22 auditor's risk assessments, which in turn drives

1 the extent of evidence needed in the current year.

2           And in the area of -- there were -- we  
3 have requirements related to situations in which  
4 the auditor performs substantive testing at year-  
5 end -- at an interim date. For example, in a  
6 calendar year-end audit, they might test accounts  
7 receivable at October 31. And we have requirements  
8 that really are adapted from our existing  
9 requirements about going and updating the auditor's  
10 conclusions from that interim date to year-end.

11           And what the standard requires the  
12 auditor to perform procedures to cover the  
13 remaining period that would provide a reasonable  
14 basis for extending those conclusions.

15           And then we have some specific procedural  
16 requirements that need to be included as part of  
17 that work, which again, are carried forward from  
18 our existing standard. It was the -- we did get  
19 comments and some of the commenters indicated that  
20 those specific additional requirements weren't  
21 necessary and that we should just go with the more  
22 general requirement about performing procedures

1 that provide a reasonable basis.

2 In the evaluating audit result standard,  
3 we had -- our reproposed standard requires the  
4 auditor to accumulate misstatements that they find,  
5 other than those that are essential de minimus.  
6 And if they're uncorrected, to communicate those to  
7 management. And if management does not correct  
8 them, to evaluate the reasons why as part of their  
9 assessment of bias.

10 There were some commenters asked us to  
11 also include a specific requirement for the auditor  
12 to request management to correct the uncorrected  
13 misstatements. And we received that comment on the  
14 initial proposal. Our reaction was that there are  
15 already existing requirements for management to do  
16 that, that it was unnecessary for us to put in an  
17 auditing standard to specifically require the  
18 auditor to ask management to correct those, but we  
19 nevertheless received additional comments that we  
20 should have such a requirement in the standard.

21 We have a requirement -- another area --  
22 we have a requirement in the area of evaluating

1 uncorrected misstatements. We have an existing  
2 requirement to -- and carried forward in these  
3 standards, to evaluate the effects of uncorrected  
4 misstatements detected in prior years and  
5 misstatements detected in the current year that  
6 relate to prior years as part of the overall  
7 evaluation of uncorrected misstatements. And some  
8 commenters wanted us to include a specific cross  
9 reference to SEC Staff Accounting Bulletin Number  
10 108 on the subject of considering the effects of  
11 prior year misstatements. So a number of  
12 commenters suggested that we add that reference.

13           Then the last point on this -- in this  
14 area was a recommendation, again, as I mentioned  
15 that we have specific additional requirements for  
16 evaluating disclosures as part of the evaluating  
17 the presentation of the financial statements, and  
18 specifically, evaluating whether the financial  
19 statements include all the required disclosures.

20           And we had some commenters that requested  
21 that we be sure and make a qualification to this  
22 requirement, based on materiality.

1           The audit evidence standard, there were  
2 requests for additional explanation about put  
3 sufficiency and appropriateness of audit evidence  
4 means. And some said create some specific  
5 definitions of sufficiency and appropriateness to  
6 include as part of the standard. Another said that  
7 sometimes in our standards, we use the word  
8 persuasive or persuasiveness. Please provide an  
9 explanation of how persuasiveness relates to  
10 sufficiency and appropriateness. So we receive  
11 those kinds of comments.

12           In the area of amendments to PCAOB  
13 standards, the reproposal included some specific  
14 additional documentation requirements that weren't  
15 in the original proposal. Some of them related to  
16 things such as documenting the risk assessment  
17 procedures and the responses to the risks,  
18 including a summary of identified risk, the  
19 auditor's assessment of the risks at the financial  
20 statement and assertion levels and the auditors  
21 responses, showing the linkage between the risk  
22 assessments and the responses.

1           And we had some commenters -- we had a  
2 couple commenters that said that this requirement  
3 itself was too prescriptive. Others just  
4 questioned whether we should be -- we had proposed  
5 this as an amendment to AS 3. Some had suggested  
6 that it actually was more appropriate to put these  
7 kind of documentation requirements in the  
8 respective standards.

9           And finally, in the area of -- in our --  
10 we had proposed an amendment to the audit sampling  
11 standard. And it relates to sample sizes when an  
12 auditor's using non statistical sampling methods.  
13 And the requirement would say that when a non  
14 statistical sampling method is applied properly,  
15 the resulting sample size ordinarily will be  
16 comparable to or larger than the sample size  
17 resulting from an efficient and effectively  
18 designed statistical sample.

19           And we explained in the release that the  
20 intent is not that you calculate a statistical  
21 sample and a non statistical sample size. The idea  
22 is that recognizing that a number of firms already

1 have methodologies to accomplish this, that were  
2 derived from statistical sampling methods that they  
3 could just use those. And the idea was to point to  
4 that, as opposed to just saying I'll pick three,  
5 because -- based on my professional judgment, but  
6 to put some more rigor around the process of  
7 considering what an appropriate sample size was.

8 We had requests to put in some qualifiers  
9 to specifically say in the standard that we are not  
10 intending for auditors to calculate sample sizes  
11 under both methods.

12 So that concludes my remarks on the  
13 comments that we received so far. And I suppose we  
14 have a couple minutes, if anyone has questions or  
15 comments, wants to react to that.

16 Oh, Doug, come up.

17 MR. CARMICHAEL: Yeah, just comment. And  
18 I -- whenever I bring this up, boy, say well, it's  
19 not a problem because management today is  
20 correcting all the misstatements that the auditor  
21 proposes anyway.

22 But I think it'd be a good idea to

1 reinforce the point from the Sarbanes Oxley Act  
2 that management is required to correct all material  
3 adjustments that the auditor proposes just to  
4 remind people of that.

5 MR. WILSON: That's a good point.

6 Thanks.

7 MR. BAUMANN: Okay, well, thank you very  
8 much. Keith, thanks for that summary. We did that  
9 because as I've said on numerous occasions, I think  
10 these seven standards are very important for the  
11 performance and execution of an audit. And they  
12 are adding to the framework that already exists  
13 under PCAOB standards, and will be foundational for  
14 future standard setting.

15 Our goal, as I mentioned earlier, and it  
16 is a goal, it's a lot of work here, is to try to  
17 address all of these comments and try to issue  
18 these standards during the third quarter.

## **Meeting of the Standing Advisory Group**

April 8, 2010

8:30 a.m. – 12:30 p.m.

## **Risk Assessment- Summary of Comments Received**

Keith Wilson  
Associate Chief Auditor,  
*Office of the Chief Auditor*

## Risk Assessment

### □ Profile of Commenters

■ Auditing firms	10
■ Associations of accountants/firms	6
■ Academics	2
■ Other	<u>5</u>
Total	23

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## General Observations

- Most commenters recognized improvements in the re-proposed standards and release
- Overall themes in the comment letters were substantially the same as the comments on the original proposal, with some changes to the specific recommendations
- Some commenters continued to support reducing unnecessary differences with standards of the IAASB and ASB
- Some commenters requested more detailed information in the release, including more explanation about how the re-proposed standards would affect audits

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## General Observations

- Some commenters offered recommendations regarding the Board's standards-setting process, e.g., specific measures to increase transparency in the process and use of task forces in drafting standards
- A few commenters expressed their views on the integration of fraud considerations into the risk assessment standards
- Some commenters expressly supported the new requirements regarding consideration of disclosures, and a few requested clarifications regarding some of those requirements

## Comments on Specific Standards

- Audit Risk
  - Requests for clarification or additional explanation of the components of audit risk
- Planning and Supervision
  - Recommendations to divide the standards into separate standards for planning and for supervision
  - Requests for clarification of the role of the engagement partner for supervision and review

## Comments on Specific Standards

- Planning and Supervision (cont'd)
  - Regarding the requirements for multi-location engagements:
    - Concerns that the requirements for varying procedures at locations year to year is too prescriptive
    - Requests for direction on applying the requirements to situations when the work and reports of other auditors are used
  - General support for the provisions regarding persons with specialized skill or knowledge, with a variety of recommended enhancements

## Comments on Specific Standards

- Consideration of materiality in Planning and Performing an Audit
  - Concerns regarding the use of the federal courts' description of the concept of materiality
  - Requests for clarification regarding the new statement about considering the company's earnings and other relevant factors in making judgments about materiality
  - General support for the provision for determining materiality in multi-location engagements, and requests for explanation about how to apply certain aspects of the new provision for multi-location engagements

## Comments on Specific Standards

- Identifying and Assessing Risks of Material Misstatement
  - Requests for clarification of the requirement to consider performing certain procedures while obtaining an understanding of the company, amid concerns that a broad interpretation of the requirements could be unduly burdensome
  - Requests for clarification of certain requirements regarding consideration of necessary financial statement disclosures
  - Requests for clarification of the requirements for obtaining an understanding of control activities
  - Concerns that the wording of the requirement to consider information from other engagements performed for the company was too broad

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## Comments on Specific Standards

- Auditor's Responses to the Risks of Material Misstatement
  - Requests for additional clarification of the requirements regarding the use of evidence from past audits when evaluating the effectiveness of controls
  - Concerns that the requirements for updating procedures when substantive tests were performed at an interim date are too prescriptive

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## Comments on Specific Standards

- Evaluating Audit Results
  - Recommendation to require auditors to request that management correct all misstatements
  - Recommendation to include a reference to SEC Staff Accounting Bulletin 108 in the discussion of evaluation of misstatements
  - Recommendation that the requirement for evaluating disclosures be qualified based on materiality

## Comments on Specific Standards

- Audit Evidence
  - Requests for more explanation of the concepts of "sufficiency" and "appropriateness" of audit evidence
- Amendments to PCAOB standards
  - Auditing Standard No. 3, *Audit Documentation* (AS 3): recommendation that amendments be placed in the respective risk assessment standards instead of AS 3
  - AU sec. 350, *Audit Sampling*: requests for clarification regarding new requirements for sample sizes when nonstatistical sampling methods are used