

REPROPOSAL OF RISK ASSESSMENT STANDARDS
Statement of Charles D. Niemeier
December 17, 2009 Open Meeting

I'd like to thank the staff in the Standards group and the Office of the General Counsel for all their hard work on this project. Although we're treating it as one project, in fact it's several projects wrapped into one. Moreover, there are a number of other current projects that are affected by, or will affect, this project. It's been a great challenge to manage the numerous moving pieces.

I cannot say that I am completely comfortable with all the decisions reflected in the scope or content of this project. I am comfortable seeking comment, though, because I believe we are on a path to resolving those issues appropriately. We will obviously need to further develop this project before it's finalized. Moreover, as discussed in the appendix to the release, other standards-setting projects will likely result in changes to some of today's draft standards, before they are finalized.

For example, in addressing some of the comments on the earlier proposal, we've expanded the draft requirements on use of people with specialized skills. What might seem to be a rather small change at first blush has introduced some awkwardness. On a practical level, it's not clear when the draft standard on supervision applies and when the existing standard on specialists, AU 336, applies. Moreover, from a policy perspective, it's not clear why we would introduce a standard on supervising people with special skills without rationalizing it with our standard on specialists. As the release discusses, though, we have a standards-setting project on specialists that will likely address these problems before either standard is finalized.

I also continue to have some discomfort with the description, in Appendix 10, of differences between the proposed standards and certain standards the profession has developed. I don't think it's useful to elucidating our proposal. And the effort has distracted us from some much more important tasks, such as comparing our draft standards to existing standards, which I think would probably be more useful.

I do not see these concerns as an impediment to seeking outside comment, though. Comments could help us resolve some of these issues. And, in the meantime, I believe the development process has led to improvements going forward. I'll briefly touch on some points that I hope we will keep in mind.

First, in the future, I hope standards-setting projects will be focused on addressing weaknesses in standards that we identify in our inspections and other oversight activities. In the past, most of our projects have been required by the Sarbanes-Oxley Act. Now that we're nearing completion of the required projects, we

seem to have turned to trying to align our standards with standards written by professional associations for the sake of uniformity. This type of standards-setting risks spending our limited resources on matters that don't materially improve investor protection. Rather, I think our standards-setters' time would be better spent debriefing inspectors and culling inspection data to identify problems that current standards don't adequately address. That's no easy undertaking, but it will help focus our projects on the most important issues.

Second, I hope we will focus more in the future on our overall framework. We have an opportunity to make the standards simpler, with a cohesive architecture that is easy to follow, minimizes redundancy, and helps auditors focus on what's important. We obviously can't do everything at the same time. But I have concerns that to-date we haven't adequately thought through how our projects should relate to each other. Thus our current approach risks making the standards more complicated.

Third, we should use our releases to explain what we want to change. This would help auditors understand our expectations. And it would facilitate more meaningful comment. We tend to get very few comments on our proposals, and the comments we do get usually come from auditors. The auditor comments are very helpful. But I am concerned that we may be making it unnecessarily difficult for other segments of the public to understand what we're proposing and comment on it.

To this end, we have added a new initiative to our strategic plan, to enhance the transparency of our standards-setting. That initiative calls for "clear releases and other statements describing the objectives, methods and intent of each proposal in a manner that allows the investing public and other interested parties to understand the import and effect of the proposal and facilitates meaningful public comment."

If we truly commit to this initiative, it should help the general public understand what we're doing and facilitate broader participation in our standards-setting.