NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board’s Standing Advisory Group meeting on April 2, 2009 that related to the Board’s proposed auditing standard titled “Engagement Quality Review.” The other topics discussed during the April 2, 2009 meeting, including audit confirmations, emerging issues, and going concern, were not related to the proposed auditing standard. Those discussions are not included in the transcript.

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STANDING ADVISORY GROUP MEETING

8:32 a.m.

Thursday, April 2, 2009

National Association of Home Builders

1201 15th Street, N.W.

Washington, D.C.
So with that, I’d like to move to the first item on the agenda, engagement quality review, and I’ll turn that over to Greg Scates, who will lead that discussion.

GREG SCATES: Thank you, Jennifer.

As you are aware, soon after the board’s creation, the board adopted certain existing standards used by the auditing profession. One such standard was the concurring partner review requirement, which the board continued to apply on a transitional basis to register firms that were members of the SEC Practice Section of the AICPA as of April of 2003.

Registered accounting firms that were not members of the SEC Practice Section, those were generally non-U.S. firms and some smaller firms, are not subject to this existing requirement.

As part of the board’s process of evaluating the existing concurring partner review requirement, the board sought the advice of the Standing Advisory Group on two separate occasions, in June of 2004 and October of 2005. In addition to input received at these SAG meetings, the board considered information on this topic from PCAOB inspections, SEC and PCAOB.
enforcement cases, and other sources.

On February 26 of last year, of 2008, the board proposed to replace the existing requirement with a new auditing standard entitled Engagement Quality Review. The board received 38 comment letters on this proposal and, in response to the comments, made significant changes to the original proposal. On March 4th of this year, the board re-proposed the standard. The comment period for this re-proposal ends on April 20th.

A transcript of the discussion this morning will be available on our website, along with the comment letters that we received.

Today we’d like to discuss certain aspects of the proposed standard that generated significant feedback from commenters on the original proposal. In particular, the SAG will discuss questions from the release related to reviewer qualifications, the engagement quality review process, concurring approval of issuance, and documentation of the engagement quality review.

So first, let’s turn to reviewer qualifications. The board originally proposed to
allow the engagement quality reviewer to be a partner
or another individual in the firm or an individual
outside the firm. In contrast, as described in the
release on March 4th, the new proposal would require a
reviewer from inside the firm to be a partner or a
person in an equivalent position. Like the original
proposal, the new proposal would allow a qualified
person outside the firm to perform this review.

In addition, as under the original proposal,
the reviewer must have independence, integrity, and
objectivity, and must possess the level of knowledge
and competence required to serve as the engagement
partner for the same type of engagement.

The discussion questions on reviewer
qualifications taken from the release are on the slide
in front of you. These are the ones we’d like to talk
about first. Is it appropriate to explicitly require
a reviewer from within the firm to be a partner or an
individual in an equivalent position? Should the
standard allow qualified accountants who are not
employed by the accounting firm to conduct the review?
And then should the standard prohibit the engagement
partner from serving as a reviewer for a period of
time following his or her last year as the engagement partner? And if so, is two years a sufficient time, or should it be extended?

So I’d like to go ahead and open up our discussion here on the reviewer qualifications for the engagement quality reviewer.

JENNIFER RAND: Just for the new members, if you’re interested in making comments, we’ll try to call on you in order. If you could just please put your name tent on the side, and we’ll get to you.

GREG SCATES: I’m sorry. Wayne? Wayne Kolins?

WAYNE KOLINS: Yes. I’m just thinking on the first one, I think it is appropriate for the reviewer to be a partner, and I would just seek some clarification in terms of what “equivalent position” means. I assume that if the accounting firm is not organized as a partnership, then we’re talking about a name other than a partner, but an equivalent to what a partner would be in a partnership.

GREG SCATES: Yes. We explain that in the release. Yes, you are correct, Wayne, that if it’s structured like a corporation, then they’re sometimes
referred to as members, and it would be someone in an
equivalent position as a partner.

WAYNE KOLINS: And I do think it is
appropriate for those that are not employed by the
firm, and particularly with respect to smaller
accounting firms. They may have a resource issue
getting the number of partners to serve as a
concurring reviewer, and it has been the experience
for such firms to go outside the firm, perhaps getting
an accounting professor, an audit professor, or
somebody that is very experienced doing these reviews,
and I think that’s an appropriate objective and
provision for the standard.

GREG SCATES: Thank you, Wayne.

Hal Schroeder?

HAROLD SCHROEDER: I was curious about the
second requirement or applicability of hiring somebody
from the outside. How do you handle the independence
issue? It seems like if you find someone, as was just
suggested, a professor or someone who develops I would
say a specialty in being this reviewer, will they
become dependent on that stream, and would they tend
to shade their views to make sure they had that steady
stream of being the reviewer? They may be qualified,
but their source of income may make them less than
independent.

GREG SCATES: Good point. Thank you, Hal.

Gaylen Hansen?

GAYLEN HANSEN: I would follow up with
Wayne’s comments. I agree that perhaps some
clarification on what equivalent position within the
firm means, what may be a little bit of color on that,
if it were.

But at the same time, on the other question
about the outside reviewer, I think the same standard
should apply. I don’t know how you have a lesser
standard with outside individuals than what you would
within the firm, and the follow-up with the last
comment. I think the independence issue is typically
resolved with respect to either that individual is
with another registered firm and some sort of
independence confirmation that there’s independence,
in fact, with that client.

On the third question about the prohibition
of becoming an engagement quality reviewer after
serving as an engagement partner if you still have
years open within the five-year rotation period, I think some break is appropriate. I’m not sure where the two years came from or why it was thought that that would be appropriate. I would even ask, in the interest of smaller firms that have limited resources, whether a one-year break would be sufficient. I’m not sure that two years is necessary.

GREG SCATES: Bernard Jarvis?

BERNARD JARVIS: It’s my view also that the engagement quality review is a very important part of the audit and ought to be assigned to a person who is a senior executive in the firm, and that would, in my opinion, be someone at the partner level. And I’d just address the third point. I agree with Gaylen that perhaps in the case of small firms, one year break. I do agree that some break is necessary, and I’d agree that about one year would be sufficient.

GREG SCATES: Other comments on the qualifications? Joe Carcello?

JOSEPH CARCELLO: I appreciate the sentiment on the one year. The one thing you probably need to think about carefully, though, since your purview is public companies, is two years of balance sheets and
three years of income statements and cash flow

statements in the 10-K. And so if there’s a one-year
period after someone rolls off being the engagement
partner and they come on and they’re the engagement
quality reviewer, at least some of the financial
information and the financial statements that they’re
going to be reviewing were financial statements that
they were responsible for auditing.

GREG SCATES: Any other comments on the
reviewer qualifications? Arnold Schilder?

ARNOLD SCHILDER: Thank you. Just a brief
comment for agreement with what you have done. If I
compare it with what the IAAHB has done in the quality
control standard, you’ve tried also to define a bit of
a general principle which mentions more general
principles, sufficient and appropriate technical
expertise, experience, and authority, because you can
never, let’s say, regulate all detailed circumstances.
So we thought it was helpful to have a bit of a
broader criteria to which against you can judge the
more specific criteria. And I would just offer that
as a thought that might be helpful in the
circumstances.
GREG SCATES: Thank you, Arnold.

If there are no other comments, we can move to the next topic. Let’s turn to the engagement quality review process.

It’s described in the release under the new proposal like the original proposal. It would require evaluation of significant judgments made and conclusions reached by the engagement team, and specify certain procedures that the reviewer should always perform. The new proposal provides that the reviewer should perform these procedures through discussions with the engagement team and through the review of documents.

Under the original proposal, after performing certain procedures, the reviewer was required to perform additional procedures in higher risk areas of the engagement. This provision is not included in the new proposal because the board believes that the required procedures are sufficient to focus the reviewer on the areas of higher risk.

The new proposal describes specific requirements for an engagement quality review of an interim review. These requirements are based on the
proposed requirements for an engagement quality review of an audit and are tailored to the different procedures performed in a review of interim financial information.

Now let’s turn to the questions in the release on the engagement quality review process, as on the screen in front of you. Are the descriptions of the scope and extent of engagement quality review procedures contained in the re-proposed standard appropriate? Will the performance of these procedures result in a high-quality engagement quality review? If not, how should these procedures be revised? Are these specifically required procedures appropriately tailored to reflect the difference in scope between an audit and an interim review? And then lastly, do the specifically required procedures sufficiently focus the reviewer on areas of higher risk? Are there other procedures that should be required?

I’m going to open up the floor for discussion of the engagement quality review process itself.

WAYNE KOLINS: One process, part of the
process that I’d like to see put in there is some
guidance or some principle regarding how any
differences of opinion between the engagement quality
reviewer and the engagement partner are worked out.

GREG SCATES: Okay. Gaylen Hansen?

GAYLEN HANSEN: Yes, I think that resolution
process needs to be addressed that Wayne just brought
up.

The other thing that I think would be
helpful is some sort of distinction between
materiality with respect to an audit and a 10-Q
interim review would seem to be appropriate in the
sense that materiality in an audit -- and we all
struggled with that, and we’ve had those discussions
around this table, but it involves planning and
understanding of the system and internal controls,
whereas I think there’s a little bit different meaning
of materiality on interim reviews, and there doesn’t
seem to be any kind of distinction with respect to
that and how that is addressed. It talks about
material modifications and the AU -- what is it? 722?
-- and I think if a little bit more was said about
that particular distinction, it would be helpful.
GREG SCATES: Randy Fletchall?

RANDY FLETCHALL: Greg, I would just like to comment, first to commend the board. I think the revisions that were made from the first version to this version went a long way in clarifying what I think were some concerns about what exactly is the process that the standard is articulating.

I think likewise the original version, an audit and interim review were kind of lumped together, and so now I think it’s much clearer that those are different service levels and the level of the engagement review is different.

Undoubtedly, we will still have a few comments on a few words that we would suggest, probably Paragraphs 9 and 10, maybe an addition to that section that would give some additional clarification. But I guess I would just say I think this went a long way in solving what we thought were some of the concerns.

GREG SCATES: Thank you, Randy.

Greg Jonas?

GREGORY JONAS: I am a little surprised that the document doesn’t give more attention to the issue
of timing of the review. In my experience, a key differentiating factor between substantive concurring partner reviews and non-substantive, often the root cause was the concurring partner was in late, particularly on larger engagements where audits are kind of like aircraft carriers. If you don’t turn them on a dime, you don’t turn them quickly. You’ve got to get a running start.

The concurring partner, looking at planning shortly after the planning is done, looking at the resolution of major issues as they occur throughout the year, is really an important factor to a quality review. Also, it helps the concurring partner get their head in the game, which is critically important, particularly in complex work.

I certainly understand the board’s desire not to be too prescriptive about timing. I appreciate that timing, best timing practices differ dramatically from job to job. But I am surprised that it almost -- it walks away from the issue and abdicates any counsel in a standard in what, in my experience, has been mission critical to a quality concurring partner review.
JENNIFER RAND: Greg, can I just ask you to expand on what you might think would be appropriate to include, recognizing the standard would be to be applied for all public company audits to have an engagement quality review? So kind of what in your view in the timing would you like to see mentioned, if you have any more thoughts specifically?

GREGORY JONAS: Well, if the document at least talked about the importance of timing, the importance of concurring partners to get in early, where desirable, the advantages of doing this, and simply observe that one of the factors that one considers when deciding whether a concurring review was substantive in part relates to the timing. I wasn’t thinking more than that.

JENNIFER RAND: Thank you.

GREG SCATES: Liz Fender.

ELIZABETH FENDER: I’m not sure I’m reading it correctly, but I was questioning the differences between the procedures required for an interim review versus an annual review, and I think the wording was trying to make it clear that if you’re doing an interim review, you don’t have to look at the prior
year’s disclosures about internal control for the annual review report. One, is that correct? And two, would you really do that? Would you really review somebody’s interims and not take a look at what somebody raised in the prior annual review?

GREG SCATES: Liz, are you talking about the prior -- a review of a prior quarter, or are you talking about the annual audit?

ELIZABETH FENDER: I think the wording says you only have to look at the prior interim information. So I didn’t know if that was meant to say you don’t have to look at the prior year’s annual audit reports.

GREG SCATES: Well, the engagement quality reviewer would be looking at it if he or she is not already familiar with the engagement and what happened in the prior year’s audit. If he or she was new to the engagement, then they would obviously look at prior year’s audit and see what the issues were, what the audit issues were. In carrying out the interim review, they would look at the prior quarter. If there’s a prior quarter they looked at, then they would look at that to see what the issues are, because
they want to keep current with the issues and know
what they are going into that review.

ELIZABETH FENDER: I agree with the
sentiment. I’m just not sure the words are clear
about that. But obviously, you do have to familiarize
yourself with the engagement. But when it was trying
to describe the differences between what you’re
required to do in an interim versus an annual, it sort
of said you only have to look at the prior interim.

GREG SCATES: Okay. We’ll look at that and
make sure that’s clearer. Thank you.

Doug Anderson?

DOUGLAS ANDERSON: I had a concern on how
the objective is worded and how the procedures in
Paragraph 10 and Paragraph 9 are described. As I read
the objective, which I think is a great idea to have a
clearly stated objective for the standard in Paragraph
2, it seems pretty broad. It looks like we want to
make sure that there’s a good evaluation of judgment,
a good evaluation of conclusions received. As I look
at Paragraph 10, it talks about, in Part B, that the
reviewer should evaluate the risk assessments, the
audit responses, the scope of the work. Those all
seem pretty broad. As I go back up, though, to Paragraph 9, it says you’re supposed to do that merely by holding discussions with the engagement team, effectively, in reviewing documentation.

Those, to me, seem to be inconsistent. The objective and what we’re trying to get out of this review seem very broad and comprehensive, but then we’ve limited the procedures, and my concern is those two things could be considered in conflict, that the external auditing firms will then revert back to what they think the objective is driving as opposed to what Paragraph 9 is saying.

So as I look at this, it just seems inconsistent, those two directions in the standard looking consistent, and either needing more clarification back up in Paragraph 2 as to what the objective is, or maybe more clarification in 10(b) about that.

GREG SCATES: Thank you, Doug. We’ll take another look at that and make sure that they are consistent and clear and concise.

Bob Dacey?

ROBERT DACEY: Thanks, Greg. We, too,
appreciate the changes that were made in response to
the comments on the earlier draft but still have some
concerns about -- at least it’s our perception that
some of the other standards, particularly the IAASB,
are at a more general principle level than what this
would provide in the PCAOB. And again, in this area
as well as other areas, we just have the concern as to
whether or not there’s a perception that the general
principle stated in some of these other standards are
consistent with where you are going or different
because of the different terminology that you’re
using.

So we just want to, again, raise that point
of concern in this area in particular as to whether or
not that will create any conflict in application.

Thanks.

GREG SCATES: Hal Schroeder?

HAROLD SCHROEDER: Echoing some comments
that were made earlier, I am curious myself as to why
LISI, signing off on the engagement planning portion,
it’s not encouraged or recommended that it’s done
concurrent at the same time the partner has signed off
on it. The reviewing partner should be signing off on
the planning before anything substantive is done,
because as I read through the requirements, you don’t
have any opportunity to make any recommendations or
changes. The game is over by the time you get
involved, and I would strongly recommend that at least
there be two segments to a reviewer’s involvement,
early in the process, and then at the end of the
process.

GREG SCATES: Thank you, Hal.

Kurt Schact?

KURT SCHACT: A quick question for those of
us not in the profession. I’m curious how often does
the EQR result in a material change, and does the
PCAOB, or should it, keep statistics on that so that
you have some statistical evidence of how often
problems should be found in a particular company’s
audits?

GREG SCATES: You can look at some of our --
our inspection reports have cited some findings with
respect to the performance or lack of performance,
aggregate performance in the engagement quality
review, but we don’t have any statistics on it. But
I’d be interested in hearing from the profession,
anyone that wants to.

Vin Colman?

VINCENT COLMAN: I’ll certainly be brief. That kind of statistic would be very difficult if your objective is a good engagement quality review. I do engagement quality reviews now, and to say did you catch something, if you’re doing it well from the planning through the execution to the final and you are engaged with the engagement team, you’re both independent, but yet you’re understanding issues as they arise. So the objective is to avoid looking for the statistic that you’re asking for, because the objective is to get it right before you even would get into that position, if you’re doing your job right, correctly.

GREG SCATES: Paul Sobel?

PAUL SOBEL: Thinking through the 302 disclosure requirements, I do see -- and I’m thinking of interim reviews. I think it was covered well for the annual review. There is mention about changes. Presumably that’s material changes and internal control over financial reporting. I didn’t see any specific mention about any frauds that might be
identified, committed by management or those involved
in the financial reporting process. Is that just
considered to be intuitively covered by one of the
other items?

GREG SCATES: Paul, can you explain that --
can you go over that discussion again? I’m not sure I
understand what you were saying.

PAUL SOBEL: Okay. If there is an incident
of fraud committed by a member of management or those
integrally involved in the financial reporting
process, it has to be disclosed to the audit committee
and the independent outside auditor. I presume, even
with interim financial statements, that might raise
questions by the engagement partner, and I wasn’t sure
how that would be covered, then, in the EQR in terms
of the resolution or conclusions about the impact such
a fraud may have on the interim information.

GREG SCATES: The auditor is clearly under
an obligation, a professional obligation, that if
something comes to their attention, that they have to
resolve it. They cannot have some information before
them and because it has serious consequences with
respect to not only the interim financial statements
but also the annual, so they have to resolve any particular issue that might be a fraud indicator.

PAUL SOBEL: I understand that, and I guess my question was, as I say, it may be subsumed in one of these bullet points, is how does the concurring partner get comfortable with the conclusions of the engagement team with regards to that resolution?

GREG SCATES: Well, the engagement quality reviewer would have to use his or her professional judgment, and that’s what that individual’s duty is, is to challenge what the team has done. So he or she would be challenging the team’s conclusion on any matter, whether it’s a matter that you brought up or any other matter.

Any audit or accounting issue that they are confronted with, that person is charged with that and has that obligation to make sure that they are concurring with the resolution, because if they’re not, then they need to have a further discussion. They may have to -- he or she may have to have additional evidence before he or she concurs.

PAUL SOBEL: Yes, I understand that side. I’m either way off base or not making myself clear. I
understand what the process should be. The interim procedures are silent with regards to that. So what I’m hearing you saying is that that would just go along with any of the other judgments, material judgments that are made and doesn’t need to be specifically identified as something that should be on the radar screen of the concurring partner, because again, material changes and internal control are mentioned as one of the items, but fraud is not.

GREG SCATES: Okay. Well, we’ll take another look at that.

JENNIFER RAND: Paul, I see fraud mentioned in Paragraph 15 regarding interim. I don’t know, it’s one of the -- under 15(a). “Engagement quality reviewer should evaluate the nature of identified risk and material misstatement due to fraud.” Does that --

PAUL SOBEL: It may. I saw that particular point, and to me that was more forward looking, what are the risks, what are the potentials, and I was referring to something that was known and identified.

GREG SCATES: Gary Kabureck?

GARY KABURECK: Thank you. This question I thought of when Kurt had raised his question about
tracking statistics, if you will, when the engagement
reviewer overrules the -- excuse me -- the quality
reviewer overrules the engagement partner.

My question: Did the board consider, or
should you consider if you didn’t, if there really is
a significant override by the concurring partner and a
decision is changed, whether it’s audit scope or
accounting or disclosure decisions, should there be a
requirement for communication with the audit
committee, or at least the audit committee chairman,
of that event?

Again, I appreciate a lot of this stuff.

We’ll eventually agree, and eventually we’ll get the
evidence, but there’s going to be times, presumably
when the engagement team is overruled on something
that’s important, and from a client service point of
view, should there be a requirement for at least the
audit committee or the audit committee chairman to be
advised of that? I don’t know if that’s -- I don’t
know if you considered it and rejected it. I’m not
even suggesting that that should be the answer, but I
think it should be considered.

GREG SCATES: So any instance, then, you’re
saying, in which the engagement team arrived at a
collection and then the engagement quality reviewer
would disagree, and then the ultimate conclusion is in
the favor of the way the engagement quality reviewer
wanted to go, so he or she overrides what the
engagement team did?

GARY KABURECK: Yes, correct. And
presumably, anything they would override them on would
be something material to the engagement, whether it’s
on the audit scope or an accounting conclusion,
because this is supposed to be risk focused. Again,
I’m not saying that should be the answer, to advise
the audit committee or the committee chair. I’m just
asking did you consider it, and if you didn’t, maybe
you could before you finalize it.

GREG SCATES: Would anyone else like to
weigh in on that? Yes, Gaylen Hansen?

GAYLEN HANSEN: I would be very cautious
about using the word “override.” We -- I think
ultimately the engagement partner has to be

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concurring reviewer, doesn’t take that further to the firm’s quality control partner, to the director of audit services, whatever the structure is within that firm to try to get resolution.

But I think that resolution aspect is a little bit lacking in the standard. But I’m a little bit antsy about this idea that one person can override another person in its entirety.

GREG SCATES: Thank you, Gaylen, and thank you, Gary.

Wayne? Wayne Kolins?

WAYNE KOLINS: On that point, I would also be cautious, and even if the word “override” is not used and it’s a different word, like maybe if there’s a disagreement and the engagement quality reviewer’s position is the ultimate position, then you’d have to get involved with defining disagreements again, which is now in the literature between the issuer and the audit firm, and there’s a whole different reason for that in terms of the pressure that might be put to bear, which I don’t think exists on the engagement team.

I’d also be concerned about, in terms of
considering this, what that would do to the mindset of the engagement partner in helping to resolve this disagreement. It may make the engagement partner more obstinate in terms of the resolution.

GREG SCATES: Jim Cox? Oh, I’m sorry.

Jamie Miller. Sorry.

JAMIE MILLER: I think Gary’s point is a good one, and it’s really a question to me as to how the governance structure works between the auditor and the preparer. I think the key question is how to determine what would get communicated, and I think perhaps one way to think about it would be to consider whether audit committee communication would be required in situations where a formal resolution process had to be invoked to resolve the disagreement, as opposed to those matters that are resolved in the normal course, through additional audit procedures or additional discussion between the concurring review partner and the audit partner. But I think it is something that ought to receive some level of debate.

GREG SCATES: Thank you, Jamie.

Jim Cox?

JAMES COX: I’m sort of struck by the
opacity of the second paragraph. It states the
objective. And I think if we had less opacity, we
would deal with a lot of questions which were started
off by Harold’s comment about what we really want to
have happen here.

You can think of a wide range of objectives
that could be served within this language, and I think
we ought to specify which one of it is we want. One
would be make this year’s audit better. Another one
would be make next year’s audit better. A third one
could possibly be an internal evaluation of your own
staff doing this. A fourth one could be an external
evaluation by the audit committee.

I mean, what exactly is the objective of the
external quality review? I think if you come to grips
with that, many of these questions on this session
would shake out from that. But currently, I think
that, again, just to repeat myself here, I’m struck by
what I perceive as the opacity of the second paragraph
stating what the objectives are. I think it’s fairly
-- it’s too generalized to be very helpful to somebody
who is going to have to govern their conduct as an
external reviewer, or what to make of the external
review going forward.

GREG SCATES: Thank you, Jim.

Joe Carcello?

JOSEPH CARCELLO: As some of you know, I’ve spent a lot of time over the years working with accounting and auditing enforcement releases, and one of the things we’ve seen in some of those, certainly not the majority but in some situations where obviously there is ultimately a fraud, and people lower on the engagement team had come across issues that were problematic and were dissuaded from being overly concerned about those issues by people higher on the engagement team. And so my concern ties into Paragraph 9, where the last sentence in that paragraph talks about holding discussions with the person with overall responsibility for the engagement, holding discussions with other members of the engagement team, as necessary.

I guess I would encourage the board to at least think about eliminating the words “as necessary.” In today’s world, with the ubiquity of cell phones, you would not have to have this discussion face to face. By the time the second
partner review is happening, often members of the engagement team are on to the next job. But you could easily pick up a cell phone and just touch base with everybody on the engagement team to just make sure there wasn’t an issue that really troubled them, that they maybe were dissuaded from pushing too hard by others higher up in the chain.

GREG SCATES: Thank you, Joe.

Bob Dacey?

ROBERT DACEY: I just wanted to add a point.

In terms of our government auditing standards, we wanted to clarify in our latest release that, in fact, the firm ought to have procedures in evaluating or monitoring the quality review process, both in terms of identifying any systemic issues that were identified through quality reviews, as well as where the quality review function is being carried out properly in terms of a monitoring procedure.

So I’d just offer that in terms of what we’ve also addressed to deal with the issues of differences and whether or not things caught in a quality review, how they were dealt with, and again whether that’s a systemic issue in the firm.
GREG SCATES: Greg Jonas?

GREGORY JONAS: Greg, I’m about to betray my ignorance, so apologies in advance. Does the new quality control requirement apply to review of work supporting the 404 report on internal control?

GREG SCATES: Yes.

GREGORY JONAS: And that is quite a change in practice relative to current practice or concurring partner reviewers?

GREG SCATES: No. They currently perform that review of the internal control as well as the audited financial statements.

GREGORY JONAS: Is it worth making crystal clear in the final document that if the auditor has an integrated audit, that these requirements apply to that 404 work as well, or was I the only person in the room who was left wondering whether it does or doesn’t?

GREG SCATES: Well, I’ll go back and look at it again. I thought it was clear, but maybe -- we’ll make sure it is.

GREGORY JONAS: It could be my fault. It very well could be my fault. Thank you.
GREG SCATES: That’s fine.

Jeff Mahoney?

JEFF MAHONEY: I just wanted to follow up on Kurt’s question earlier, and Professor Cox’s comments about the objective. In connection with the PCAOB’s inspection process, have you identified any issues or concerns regarding the EQR process, and can you tell me what two or three of the main issues or concerns were?

GREG SCATES: One of the issues is apparent when you look at some of the inspection reports. The question that presents itself is once you see the deficiencies that are identified, then you obviously ask yourself why didn’t the engagement quality reviewer detect some of these deficiencies. I mean, that’s paramount. With not all the inspection findings but some of them, you’ll see that, and we make that clear in some of the reports.

Another issue that comes up is the documentation of the engagement quality review process. We have noted that in the reports that it’s not sufficient to indicate what the person did and what the person reviewed and what conclusion they
arrived at, because it’s hard to tell if they did anything at all. So those are just a couple of findings I would note.

Any other comments on the engagement -- yes, Tom?

THOMAS TEFFT: I’ve just given some more thought to the question about whether there should be a requirement for communication to the audit committee if there’s disagreements or, again, I understand the word “override” is probably a little inflammatory, but for lack of a better word right now.

I just think you’d need to really consider what the objective of that communication would be because, as I think more about it, if an auditor in a firm is carrying out the work outlined in the standards such that the reviewing individual can issue the concurring report, then from an audit committee standpoint, the audit committee should be satisfied that the work was done and not be concerned about the inner workings within the audit firm that led to that conclusion.

Not any different than for a preparer if there are debates and dialogues within a company as
it’s preparing its financial statements. I just think
to the extent the board considers a requirement, you
would be very explicit as to what the objective would
be because, otherwise, you could get into a very
inefficient process and a very slippery slope there in
terms of what’s coming back to the audit committee.

GREG SCATES: Gaylen Hansen?

GAYLEN HANSEN: Just following up a little
bit on that, in that respect, I wonder to what extent
the board considered the interaction of the concurring
reviewer with the client itself? And this has come up
from time to time. Do they have the same level of
discussion access as the engagement partner? Do they
meet as regularly? Do they meet in person? Do they
call independently? To what level is that
independence of the concurring reviewer?

I’ve seen this done both ways, where the
firm wants as much insulation and independence as
possible of the reviewer, and others that say, well,
if they know the client better, they’ll understand
where they’re coming from and so forth. But to what
extent was that considered?

GREG SCATES: We did have some discussions
of that, particularly with respect for the engagement quality reviewer to maintain his or her objectivity.

And one of the issues, obviously, has to do with when you do have some accounting and auditing issues or contentious issues that come up, but most importantly here is that the engagement team has identified the issue. They gathered the evidence, and they’ve come to a conclusion. At that time, then the engagement quality reviewer, it would be appropriate for him or her to step in and take a look at it.

But most importantly here is that the engagement quality reviewer cannot be a part of the initial process of gathering the facts and gathering the evidence. That’s not their job. And they need to stay outside and look in when the issue has been -- when the team has come to an initial conclusion. Then it’s appropriate for that person to come and step in and take a look at it.

So objectivity here is very important because this person does not play -- is not going to fill the shoes of the engagement partner. And so, it’s very important -- it was very important to the staff when we were developing and drafting the
standard to make sure that this person stays outside
and looks in and maintains that objectivity.

JENNIFER RAND: Gaylen, as just to kind of
follow up, I’d be interested if you have any
experiences at your firm or other firms kind of
regarding the engagement quality reviewer’s
communications with the client or preparers have any
observations on how things are handled, that
experience and how that’s been helpful or not helpful?

GAYLEN HANSEN: I think some level of
insular or compartmentalization of that individual
makes some sense to at least consider that, and we
kind of do that within our firm. We don’t want that
individual calling the CFO and having these
discussions independently. We think that should go
through the engagement partner, except for when
they’re involved in, say, an audit committee meeting.

GREG SCATES: Thank you, Gaylen.

Sam Ranzilla?

SAM RANZILLA: Well, having listened to the
better part of the last 20 minutes, just a couple of
observations. One, I think it’s important that we
keep in mind the objective, and then I understand some
think that the standard could be improved. And I
don’t know that I disagree with that.

But the objective here is to improve audit
quality and improve financial reporting, and having --
I hear sort of a sentiment around turning the
engagement quality control reviewer into another
policeman where statistics are kept on what they found
or communications made to the audit committee about
where they overrode somebody. I don’t think that’s
actually going to improve the situation.

From the perspective that the engagement
quality review is just one element of the firm’s
overall system of quality control, and there are
plenty of policemen at the firms with respect to
internal inspections and other parts of the quality
control system where there is a vetting and a “second-
guessing” of that engagement partner, I think this
role should be more in line with getting it right the
first time, improving the quality of audit, and that
client’s financial reporting and communication to
investors.

So I think it’s a balancing act. I just --
I caution you against turning this role more into a
policeman than what would be appropriate.

GREG SCATES: Thank you, Sam.

Any other comments on the engagement quality review process?

VINCENT COLMAN: You know, I do want to follow up on I guess Sam and Gaylen’s point. I do think you need to strike the right balance between objectivity and independence that you do already have in the standard.

But to do engagement quality, to get it right the first time, as Sam just said, there does need to be a certain level of interaction to make sure that you have a deep enough understanding of what those critical decisions and issues are. And if you go too far away, as I think that was just suggested, perhaps you cannot get it right the first time, and that’s the objective.

GREG SCATES: Thank you, Vin.

Larry Salva?

LAWRENCE SALVA: Thanks. Two points. I guess on the interaction with the concurring partner - between the concurring partner and the client interaction, I think the firms may take different
approaches and at times may have taken different approaches as to how much exposure concurring partners were giving to clients. I think that can really be left up to them in terms of what works best.

My current experience that I do with the firm that I’m working with now, there was a point in time that I knew the name of the concurring partner but had no interaction with the concurring partner at all. And more recently, I’ve had some interaction, but limited. And I don’t think engagement quality has suffered in either of those cases. It’s an internal working for the firm in terms of what works best for them.

The other point I’d make is in terms of communication with the audit committee. If that is considered by the board, I think it should stay out of this standard. There is a whole slew of things that should get communicated to audit committees, and I think about the audit committee communication that I have in terms of kind of a standard question from my audit committee chair is what close calls may have been debated within our disclosure committee, our internal management committee that discusses issues.
and resolution?

And if the audit committee chair is so inclined to ask the engagement partner or the engagement team were there issues that were resolved through involvement of the engagement quality reviewer that would have been resolved differently had that review not occurred, fine. Let the audit committee chair be interested in that or put that into the mix of all of the communications that the auditor should have with the audit committee.

But I think it should stay out of the specific standard. It shouldn’t be called out as a requirement here.

GREG SCATES: Okay. Thank you, Larry.

Any other comments on this particular topic, on the engagement quality review process?

[No Response.]

GREG SCATES: Okay, let’s turn to the next topic, to the concurring approval of issuance. The original proposal provided that the reviewer must not provide concurring approval of issuance if he or she knows or should know, based upon the requirements of the standard, of certain engagement deficiencies.
In response to concerns expressed by commenters, the board revised this provision so that it relies instead on the auditor’s existing duty to exercise due professional care rather than using the phrase “knows or should know, based on the requirements of the standard.”

Like the formulation in the original proposal, the revised provision makes clear that a reviewer cannot evade responsibility because as a result of an inadequate review, he or she did not discover a problem that a reasonably careful and diligent review, a review performed with due professional care, would have revealed.

For our discussion this morning, let’s discuss the questions from the release that addressed concurring approval of issuance. In front of you on the screen is the standard for the engagement quality reviewer’s concurring approval of issuance appropriately described in the reproposed standard.

Is the first edition appropriately tailored to reflect the difference in scope between an audit and an interim review?

Jim Schnurr?
JAMES SCHNURR: Thank you.

We viewed the removal of “know and should know” as a positive step but are a little bit confused by the fact that in the discussion in the fore part of the standard, they define “due professional care” as the same as “know or should know.” So it seemed to me that while in one instance, they changed the language, they made it clear that they thought the standard was still the same. And I don’t think that addresses the concerns that we and others have expressed around that.

The second point I would make is it seems odd to me that an individual auditing standard would specifically point out a requirement for due professional care when there is an overall standard, auditing standard that deals with due professional care, which applies to all standards. And so, it seems very odd to me that we would have a separate standard, which is then if you want to call it somewhat defined in the fore part of the standard.

GREG SCATES: Other comments? Gary?

GARY KABURECK: Picking up where Jim was just talking, looking at the way at least I read,
whether it’s auditing releases or accounting standards, there is the standard, and then there is the backup material, in this case the release, you know, the basis of conclusions and FASBs.

So usually the standards are pretty clear in what they say, accounting or auditing or whatever. Then you go, “What do you mean?” I mean, you tend to go to the releases and the issuing cover memos and stuff where you get a little bit more free form in the words. And I mean, I’ve found over 25 years or so is those are often more useful in terms of communicating intent than the final standard itself.

So I can empathize where what Jim is saying with as a preparer, it doesn’t matter all that much to me. The preparers, I think, when they commented, worried about does this become a second audit? I think you were trying to address that, but I can see where they would read that there’s a conflict between the release and the standard. Maybe they’re reading it wrong. Maybe it’s unintentional. Maybe it’s just a draft -- choice of words and drafting.

But seriously, the covering documents’ basic conclusion stuff get read very heavily on any
assessment or interpretation of standards.

GREG SCATES: Other comments on concurring approval of issuance? Okay --

GAYLEN HANSEN: Greg, I think it's a great idea.

[Laughter.]

GAYLEN HANSEN: I think it should happen.

So --

JENNIFER RAND: So you're supportive of it?

This is an area we did receive a lot of comments. So interested in views in what we've done.

Gaylen, I thought I heard you say --

GAYLEN HANSEN: Yes, I mean, I think it all ties back into the timeliness that we've had of prior discussion about whether they're involved or whether this review is taking some -- is being wrapped up, and there are points that are open after the filing has been made.

I just can't imagine that there wouldn't be some level of formal signoff on the concurring review. And after the fact doesn't do anybody any good.

Unless you're talking about next year's audit, Jim.

GREG SCATES: Vin Colman?
VINCENT COLMAN: Yes, I just wanted to reiterate. You don’t want to repeat, but I also don’t want the silence in this room to make the point that Jim and Gary have just made, that it’s not a significant point.

I mean, you’ve got -- I think that the standard from a year ago has been significantly improved, as Randy said, and really appreciate that. But by far, this was the biggest issue with respect to the “known or should have known.” And it seems that it’s been taken out of the standard, but yet used as a synonym to “due professional care.”

There is another standard that’s out there on due professional care. I think we know what it is. And then to have something in there that basically almost redefines “due professional care” to be “known or should have known,” I really question whether or not you address the issue. And it’s now done in a way, as Gary pointed out, it’s in the back somewhere.

I’m not sure it was a drafting error. Is that what we are saying or not? And I’m a little bit concerned, did we address it or not? I think we all felt like we did, but yet when you really read it, the
answer is maybe we didn’t. And I think it does need
to be addressed. As was discussed many, many times
with the unintended consequences if you were to go in
that direction, there’s a real concern around it.

GREG SCATES: Thank you, Vin.

Doug Anderson?

DOUGLAS ANDERSON: Not to pile on, but just
to emphasize a point that I was trying to make
earlier. This whole issue of “known or should have
known,” when you marry that together with the
objective that’s very broad, I don’t know how it’s
possible to accomplish that objective, especially the
standard of “known or should have known” based on what
it says in paragraph 9. And I get back to that’s why
I think the standard is inconsistent.

It holds the auditor to a high level of
performance but then says you’re only supposed to do
that with these limited steps. And I worry that the
objective and the expectation far exceeds what we’re
saying they’re supposed to do, and that’s the primary
conflict I see in the standard.

You put the external auditor in a very
difficult situation of holding him to a high result,
but saying they have to get there by doing limited
procedures. And if that comes to fore, I think the
objective will win out over what paragraph 9 says.

GREG SCATES: Other comments before we leave
this area? Any other comments? Paul Beswick, SEC.

PAUL BESWICK: Well, Greg, I think it would
be helpful if the staff did provide some views to the
questions that Vin and Jim and others have raised as
through the release, have you redefined “due
professional care,” or are we relying on the existing
standard?

It seems to be a question that was posed,
and I think it would be helpful to people who are
providing comments if there is some clarification
provided.

GREG SCATES: Any other comments?

[No Response.]

GREG SCATES: Okay, let’s move to the last
topic for discussion with respect to engagement
quality review. Let’s talk about the documentation I
alluded to earlier.

Under the new proposal, documentation of the
engagement quality review should contain sufficient
information to identify who performed the review, the
documents reviewed, and significant discussions held
during the review and the date that the reviewer
provided concurring approval of issuance.

If the reviewer did not provide concurring
approval of issuance, the proposal would require
documentation of the reviewer’s reasons for not
providing concurring approval of issuance. The final
question then states before you on the slide, are the
documentation requirements in the reproposed standard
appropriate? If not, how should they be changed?

Gaylen Hansen?

GAYLEN HANSEN: Paragraph 19 says, “If no
concurring approval of issuance is provided, the
reasons for not providing the approval need to be
documented.” And maybe you can help me out with this,
but if the review is required in order to be issued in
accordance with paragraphs 12 and 13, I don’t know --
it seems contradictory.

How can you issue the financial statements
without the review? But if you don’t have the review,
you have to document why you didn’t have the review?
It just seems a little bit strange.
GREG SCATES: You are correct. I mean, obviously, Gaylen, if there is no concurring approval of issuance, then the firm cannot issue the report. You’re right. We thought you should just close the gap and explain what happened, and the work papers can be -- because the report may never be issued. The work papers can be archived as is.

Then you can plead there may have been some discussion. I’m sure there were a lot of discussions, but the concurring partner or the engagement quality reviewer can close the gap, can close down what he or she was responsible for, here’s what happened, and then they’re finished. They’re complete.

But you’re right. You’re right. There is obviously not going to be a report issued until there is an engagement quality review performed and they concur.

JAMES SCHNURR: In looking at the documentation in 19(c), which requires the reviewer to document discussions with the engagement team, significant discussions, going back to some of the comments we had earlier about Vin’s comments around
the process or the interaction between the reviewer and the engagement team, I don’t see -- and Sam’s comments earlier about what the objective is here. I don’t see how the documentation improves audit quality.

The engagement team has already documented in the work papers their conclusions about whatever the particular either financial reporting or auditing issue was. So this looks more like, as Sam talked, police or a cop coming in and having to document the discussions. It doesn’t seem to add to audit quality, and it seems to be -- I’m not sure what the purpose of it is. It’s not really described as to what the purpose of that is.

So I don’t see any incremental benefit, and it would potentially add a lot of time to the process.

GREG SCATES: Jim, looking at it from the perspective of let’s look at the engagement team first. But doesn’t documentation, hard documentation drive good audit quality?

JAMES SCHNURR: I agree with that, but the engagement team under the auditing standards already has a requirement to document their significant
conclusions. And what we’re asking the reviewer to do
is simply concur on those conclusions.

So I don’t know why that the reviewer would
then have to document in the detail that seems to be
here their discussions with the engagement team. I
mean, there is already the overall requirement that in
terms of issuing the report, he essentially or she has
to be comfortable with those conclusions before they
give their approval.

So an incremental documentation -- and given
the number of discussions that potentially are held, I
mean, if you think of a large multinational
engagement, concurring reviewer may spend hundreds of
hours on that engagement. If they have to document
every time they have a conversation around a
significant judgment, again, it’s unwieldy, and I
don’t see the benefit to the overall audit quality.

GREG SCATES: Sam Ranzilla?

SAM RANZILLA: I totally agree with Jim, and
the only point that I will add is looking at the
purpose of that -- what I might envision to be the
purpose of adding that requirement based on the
proposing release. That requirement almost looks to
me like an inspection, that that requirement is focused on your inspection process.

And I can appreciate that, but again, I would caution the board on writing auditing standards in order to improve their ability to inspect auditors.

GREG SCATES: Thank you, Sam.

Joe Carcello?

JOSEPH CARCELLO: Greg, if you forgive me, I want to go back and revisit the last discussion briefly. I’m sorry I didn’t comment on it, but I needed a little bit of time to formulate my thoughts.

My friends in the profession express a lot of concern about this due care issue and as it ties into “know or should have known.” And so, maybe there’s an issue there that I don’t fully understand, and if there is, I’d like them to articulate it.

But I guess from an investor perspective, to me, the way that that standard -- the proposed standard is written is essentially it says if you review the documentation that the standard requires you to review, if you have the discussions that the standard requires you to have, using due care, which includes professional skepticism, then if there is a
problem that’s obvious from doing that, you either
know it, but you can’t know someone’s state of mind.
Or you should have known it, which allows for the fact
that you can’t know someone’s state of mind.

And I’ll give an example of why I think this
is important. I’ve done some expert witness work for
the Securities and Exchange Commission. And in one of
the cases that I did, they were seriously thinking
about bringing an enforcement action against the
second partner, and they decided not to bring the
enforcement action because the existing standard was
sufficiently vague that they felt that they didn’t
have a strong enough legal basis to bring that action.

But I would give you kind of a concrete
example. Let’s assume I’m the second partner on an
engagement, and in the work papers, inventory
obsolescence is an issue. And so, I look at the
documentation, and the documentation is a client
schedule of a high and low estimate of the
obsolescence reserve that is X’d through with no
explanation, substituted with another client schedule
with a high and low estimate, which are much lower
numbers than on the first schedule.
And the number that’s picked and that ends up in the 10-K is the low number, which is the same number that was in the 10-K in the previous year, where inventory had increased by a factor of 3 or 4 or 5 and with indication that inventory was not turning over at all.

To me, that would indicate that if I’m the second partner and the audit procedures that had been done were minimal, at least in terms of documentation of those audit procedures, to me, that would indicate that I know or, if I didn’t know, I should have known that I probably don’t have sufficient appropriate audit evidence as it relates to the inventory obsolescence reserve because if I had used due care or professional skepticism, I would be troubled by that.

So maybe there’s a legal issue that the people in the firms can explain to me. But short of that, it seems to me that the PCAOB’s language here is completely appropriate.

GREG SCATES: Thank you, Joe.

Doug Anderson?

DOUGLAS ANDERSON: To go back to the other topic on documentation, I tend to agree with Jim that
I see 19(c) as unnecessary. If you’ve got the paragraph 16 and you’ve got the recurring partner completing 19(a), (b), and (d), I don’t know what 19(c) adds.

GREG SCATES: Jeff Mahoney?

JEFF MAHONEY: Thank you.

I’m certainly not supportive on unwieldy, unnecessary documentation, but you said to me a few minutes earlier that your inspection results revealed a lack of documentation so that you’re unable to determine what the reviewer actually did. So I would err on the side of having more documentation, not less.

GREG SCATES: Thank you, Jeff.

Hal Schroeder?

HAROLD SCHROEDER: I would agree and take the opposite side of Doug. It’s been a few years since I’ve done an audit, but when we had a concurring partner involved, we always -- the audit team would write up that discussion and what the conclusions were. So all the independent partner or engagement reviewer, whatever we’re calling it today, would come in and sign off on that memo.
So it would be not a tremendous burden, but it went a long way in documenting what was actually done on the consultations, and that would include national office, which we haven’t really touched on here. I guess that’s other people that you consult with.

But I would strongly encourage you to leave (c) in there. I think it’s highly appropriate.

GREG SCATES: Okay. Thank you, Hal.

Larry Salva?

LAWRENCE SALVA: I agree that something should be included in the standard about documentation of the areas reviewed by the engagement quality reviewer, but I think 19(c) is too prescriptive. Especially in large and complex and multinational engagements, et cetera, to say that the date of each discussion, the substance of the discussion, et cetera, et cetera, would become way too burdensome on the process and I believe would add a lot of time without significantly enhancing quality.

But I can appreciate that something should be written similar to like what Hal just suggested. A memo or something that indicates the areas that were
reviewed would be appropriate. But to be this
detailed, I think, is overly prescriptive.

GREG SCATES: Randy Fletchall?

RANDY FLETCHALL: I just want to respond to
Joe Carcello’s observation, and I am smart enough to
realize with Professor Cox and a bunch of other
attorneys in the room, I’m not going to try to
articulate a difference between “known and should have
known” and “due professional care.”

I think Jim Schnurr made a very valid point,
that due professional care is already defined for all
audit engagements for all roles and seems redundant.

Having said that, Joe, we have no objection to
performing the engagement quality review in accordance
with due professional care. So if it needs to be in
there to reinforce, no one is really fighting that.

What I think you’re in objection to, and I
think it was laid out fairly clearly in comment
letters on the original exposure, was that “known or
should have known” is a different standard and does
have a legal connotation that we thought was not the
right objective or the right standard. And so, to see
the board to say, okay, we agree. We’re going to
change it and go to due professional care, which is
well understood, but in the release still say, but we
really think it’s the same thing -- it’s that part of
it, Joe, that we’re saying we don’t think it is the
same thing.

And whether we have legal opinions on that
in our comment letters, that’s the only issue, I
think, that’s really on the table is we don’t think
it’s the same thing. And I’m not going to be -- like
I say, I’m too smart to take on exactly what those
differences are. But that’s all we’re really talking
about, not that we don’t want to do the engagement
quality review in accordance with due professional
care.

GREG SCATES: Steve Rafferty?

STEVEN RAFFERTY: I’m going to switch back
to this 19(c) issue and sort of pile on with the
auditors here. I think this could be terribly
cumbersome, and I suspect maybe this came from the
issue that you couldn’t tell where the concurring
reviewers had been in the files. But I really believe
19(b) probably accomplishes the objective in saying
the documents reviewed by the engagement quality
reviewer. You have to identify where they’ve been in
the file.

And I think requiring them to then document
every discussion that they have on significant issues
is going to be terribly cumbersome. A lot of those
significant issues are going to be in the form of
consultations that are documented in terms of what the
issue is, what the applicable standards are, what the
firm’s evaluation of that is. And it’s going to be
signed off by that concurring reviewer. So it’s going
to be pretty obvious where they’ve been in the file
and where they’ve spent their time.

To then take and write a second memo that
says, “Oh, by the way, I did also discuss this with
the engagement team,” seems a little overboard to me.

GREG SCATES: Thank you, Steve.

Vin Colman?

VINCENT COLMAN: Perhaps two points. Just
one final point in response to Joe’s question by
Randy. I think that Paul Beswick was kind of asking
the question, is this a standard of performance or a
standard of enforcement? And I think we’re getting it
confused, and I’d sure like to understand that because
I think that’s where you just went, Joe. And I think we’ve got to -- if we’re going to talk about it, I mean, candidly, that’s kind of where you’d have to go, right?

Because we all know what due professional care is. We want to exhibit due professional care.

So I think there is no debate around that. But when you start redefining what due professional care is, as Jim said, when there’s a whole standard there, and then in a couple of words redefine it for enforcement reasons, I think it starts getting confused.

These are supposed to be standards of performance. Enforcement, let’s decide how you handle that and handle that in a different manner, at least as it relates to how we would have people action a standard in our firm.

And then moving to 19(c), again just being somebody in the room who is a concurring partner on a very, very large organization, when it says including the date of each discussion, I would just ask that you think through these words. And if you’ve ever kind of tested it in a real-life engagement, I think that you would see the cost benefit would be incredibly
difficult if you really understand the number of interactions that go on during the course of a year if you’re doing -- if you’re satisfying all the other paragraphs of this standard.

GREG SCATES: Wayne Kolins?

WAYNE KOLINS: On that 19(c), it looks like it’s almost combining a couple of things. I can see having that standard, and there is a standard in there already for consultations during an engagement, where you consult with somebody in the national accounting department or whatever it happens to be, and you have a significant issue that you consulted on, you document that. That’s fine.

These kinds of discussions that happen on an engagement are at various levels, various gradations from a very insignificant issue to very significant issues, and the ultimate resolution of those discussions are, hopefully, embedded in the work papers. And the work papers should indicate whether the concurring reviewer, engagement quality reviewer reviewed those work papers.

So I think that that ultimate resolution was already in the other parts of 19, and you don’t need
19(c) for that reason.

GREG SCATES: Thank you, Wayne.

Sharon Fierstein?

SHARON FIERSTEIN: Wayne, I actually have to disagree with you. I think that actually if you just look at 19(a), (b), and (d), it doesn’t really get the whole flavor of what was done in that concurring review process.

And while I agree that 19(c) is certainly overly prescriptive and there really won’t be enough of a cost benefit there, it’s just the benefit will clearly not outweigh the cost of it. I think that there does need to be some type of summary describing what has gone on during that process because, frankly, telling me who did it and when they did it isn’t really enough to tell me what was really happening in that process.

GREG SCATES: Gaylen Hansen? Hal Schroeder?

Sorry.

HAROLD SCHROEDER: I do see a definite difference between (b) and (c). You can look at whole sections of an audit that have no major issues, but you still thought it appropriate as a concurring
partner to sign off on those documents or at least
gain understanding.

And I’ve heard a couple of times, “Well,
that would be two memos in the file on an issue,” and
I would think that there would only be the one, the
one that the team wrote that talks about how the
concurring partner was involved in that process.

And I’m still focusing on the word
“significant.” I would assume that and I’ve heard
several people, “Well, they’d have to document every
discussion.” I think we’re carrying it too far. It
would be only those things that are significant.

The team would document, and then it would
be the concurring partner’s responsibility to go and
sign off on those memos. Presumably, they’d be in
some order for it to be not a very burdensome process.

So I see (b) and (c) as different things,
and I think it’s the only way to close the loop and
finalize what actually happened on the engagement.

GREG SCATES: Jim Cox?

JAMES COX: Yes, I sort of feel the same
way, Harold, that I think the point -- and it may not
be well expressed in 19(c). But I think the point is
to communicate the level of intensity of the review that was carried out, the quality review. And that is best communicated, I think, by identifying the areas where there was some evidence of drilling down.

We could think about there’s lots of other ways of handling it, but we all live by time logs, even academics, by the way. And so, we may want to keep track of that and know that you’ve allocated a significant amount of time to a particular engagement and a particular inquiry. But I think the key point here is “significant,” and perhaps you’d like to flesh that out.

But I think what the real issue here is so that if a third party, such as the PCAOB, comes in and reviews the quality of the quality reviews, they have some evidence of the intensity of the review that occurred. And if you don’t have that, then I don’t think 19(a), (b), and (d) get you there.

GREG SCATES: Thank you, Jim.

Any other comments on documentation or any other part? Jamie Miller?

JAMIE MILLER: I just want to comment on this one as well. You know, I agree with the overall
objective of requiring documentation for the review
and that covering both the significant matters
discussed and the nature of the documents reviewed.
But I have to say from a cost benefit perspective, I
completely agree with the discussion we’ve had.

I think, as a practical matter, when you are
dealing with very, very large engagements where the
review can take hundreds, sometimes even thousands of
hours, I think the level of -- the prescriptive words
you have here may not be practicable.

And so, what I hear today is nobody is
disagreeing with the intent of what’s being written.
It’s the way it’s written and the actual specific
requirement that’s articulated in (c). So maybe that
could be shortened and moved to a more objectives-
based language?

GREG SCATES: Jim Cox?

JAMES COX: Yes, I think that that -- maybe
the wording suggestion is that you want to avoid sort
of ironclad wording, but you’d like to communicate
again what your objective is, and you’d like to have
sufficient records or documentation so that should
there ever be a third-party review, that one can make
a judgment or the records are adequate to feel comfortable with the level of intensity that was appropriate given the challenges of the review.

GREG SCATES: Any more comments on documentation or any other aspect of the engagement quality review that we’ve discussed today?

Gary?

GARY KABURECK: I have one on a subject we haven’t discussed if you’re moving to a general discussion.

And actually up on question one, where you’re talking about types of engagements, you’ve got an audit. You’ve got the inner reviews. And as a general statement, I would agree those are the ones you need to do, and a lot of other agreed-upon procedures or long-form report for some due diligence, those aren’t necessary.

But did you consider requiring an engagement quality review for SAS 70 reports? I’m thinking particularly SAS 70 Type II, thinking for our own SOX procedures. I mean there is a lot of stuff is outsourced to vendors and information providers and so on. And that’s sort of where the world is going these
days, more and more outsourcing, more and more
offshoring to specialists.

So I’ve found over the five years we’ve been
doing the 404 work, we actually have more SAS 70
reports now than we did in year one because just the
normal evolution of business. The question is, should
you require an engagement quality review for a SAS 70
report that you’re issuing? Did you consider it?

My instincts tell me it probably is a good
thing. I don’t know if it’s a great thing, and I
don’t even know if I’d hold up finalizing this and
deal with it separately. But was it considered and
listen for reaction from anybody else.

GREG SCATES: We certainly would appreciate
your comments, Gary, and any others of anything, any
type of report that we should consider that should be
subject to an engagement quality review, and we would
like to have that in a comment letter.

And if there’s anything else, Gary, or
anyone else, any other item that we should consider
including, please let us know. Let us know now or in
a comment letter, let us know if there’s anything else
we should consider.
Yes, Gaylen Hansen?

GAYLEN HANSEN: I happen to agree that the SAS 70, and you can’t really rely on a Type I, but a Type II. We’re seeing more and more of those in practice, and the reliance on those are significantly increasing in quantity and volume. So reliance on information service providers, I think, is going to be part of where this profession is going, and I would look forward rather than go through this standard and leave it out. But maybe consider pulling that into the standard.

GREG SCATES: Thank you, Gaylen.

Any other comments?

[No Response.]

GREG SCATES: Okay. Well, I thank you for your input, and I want to remind you that the comment period ends on April 20th. And we would -- I encourage you to write comment letters, anything you mentioned today or anything you want to comment on in the release. I encourage you to get those letters into us.

As you can see from this reproposal the impact that those comment letters had on the staff and
the board, and we certainly appreciate your input.

I now turn the meeting over to Jennifer Rand.

JENNIFER RAND: Thanks, Greg. And thanks again for your input in connection with that discussion.