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

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP

Wednesday, February 16, 2005
8:30 a.m.

The Army-Navy Club
901 Seventeenth Street, N.W.
Washington, D.C.
MS. RAND: Thank you.

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

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

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

Ones for it think that including the names of individual signatures would be analogous to a
section 302 certification whereby officers and directors of the company are to certify to the accuracy of financial statements filed with the commission, and believe that including the names of individuals would help increase individual personal responsibility for the audit reports that they sign.

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

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

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

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

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

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

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

MS. RAND: Jeff Steinhoff?

MR. STEINHOFF: At GAO either the Comptroller General, the managing director or director signs the report. Also the name of key staff are
listed. Having said that, I don't buy into the premise that that changes how someone behaves. We just do it that way. Whether or not I'm signing it as a managing director, whether a director reporting to me is signing it or the Comptroller General is signing it, I feel the same responsibility for the quality of it.

Also, we view each product as an institutional product; so I feel the same way if another managing director or director from another unit is signing something and I am weighing in on that as a second or third or fourth partner in some cases. We view all our products as being institutional products. I think it is fine if someone wants to sign it. I think the model we have is perfectly fine. But I think it should be left up to the auditor and see nothing wrong with having a firm sign them because they are all institutional products. I don't think it changes the way one views quality. I feel just as much responsibility if it is signed by someone reporting to me as I field as if it is signed by the Comptroller General whom I report to.

MS. RAND: Wayne Kolins?

MR. KOLINS: From the perspective of the analogy itself, I'm not sure it works because 302
certifications are not signed by the company in addition to the individuals. They are signed by the individuals. From the viewpoint of the audit firm, if the underlying premise of this proposal is that it would cause the auditors to be more careful in doing the audit, I think it may ignore the potential for PCAOB sanctioning of the individuals, for SEC enforcement action against the individuals, for state licensing actions against the individuals. And so the individuals are responsible and I think they know that they're responsible. Bringing in the concurring reviewer doesn't work because the concurring reviewer's responsibilities are not at the same level as that of the lead audit partner.

MS. RAND: Nick Cyprus.

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

I believe accountability is important and while I agree that the firm should stand behind its opinions, I don't know as I am responsible for the fair presentation of the reports of management, I believe my auditor is responsible for the fair audit of the financial statements. And as good as firm policies are, and I've said this multiple times, the quality of an audit is very much dependent on the
partner on a job. And so when people randomly say well, we're going to get out of this audit firm and get another one, I say you know, it is not about the firm. It is about quality of the people you have on the job.

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

MS. RAND: Cynthia Richson?

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

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

MS. RAND: Don Chapin?

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

And it is the essence of responsibility that in this kind of a complex thing, that the coordinating partner who would be the one that would sign this report, needs to access all the information he has. He needs to feel personal responsibility when
he does -- when he signs that report; and I think that it would be helpful to have. In my opinion, it would be like Arthur Young & Company by Donald H. Chapin, general partner. I think that ties it up pretty damn well.

MS. RAND: Arnie Hanish?

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

MS. RAND: Bob Walter?

MR. WALTER: I would just echo what Arnie said. I think that -- and Don, I think that's an excellent idea. When you get right down to it, step back for one second and ask yourself this: The board
and the commission already are going to know who the
lead partner is on that account. So who are we
talking about informing here?

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

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

So --

MS. RAND: Bevis Longstreth?

MR. LONGSTRETH: Thanks. The practice in
New York at least among the large firms is pretty
consistent in that only the firm name is signed, and
going back a ways, it wasn't always that way. There
was a more varied practice when I started in New York
in 1961. I think the practice evolved because the
most established well known firms just signed their
names. It was a sign of the firm reputation; and that
the firm was behind the opinion.

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

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

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

If accountability in a firm of any stature
is really improved because the partner's name is on
the opinion, I think the firm needs some work. But
anyway, maybe not. But why not let the firm decide because the fact is there is vicarious liability for the firm. It cares enormously about making sure each of its partners does the best possible job, because that partner carries with him or her the possibility of exposing the firm to disastrous liabilities.

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

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

(Recess.)

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

Okay. We'll resume our discussion on auditor's report and identification of the auditors. I do want to say for those listening in on our web cast and joining us for the risk assessment discussion, we will be starting that around 11:30. We will be continuing the discussion on auditor's report from now until 11:30. And because of that, I just note
for all of you, we are interested in your feedback. We have got six cards up for this discussion on question number 5. And then we have two other questions. So I want to make sure we get to everyone's remarks. Just if you can try to be concise or as concise as possible so we that can hear comments from everyone, I'd appreciate it.

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

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

MS. RAND: Ray Bromark?

MR. BROMARK: Thanks, Jennifer. I think the way you laid out the pros and cons in your paper was very well done. I'm still scratching my head a little bit to better appreciate why some folks believe the current process is broke, and I guess if there's a
view that the engagement partner does not take his responsibility seriously or isn't accountable or those ideas need reinforcement, I think we probably need to get to the root cause. And I don't think whether an individual signs his or her name to the opinion or it's the firm's name is the root cause, gets to the root cause of that.

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

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

MS. RAND: Lynn Turner?

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

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

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

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

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

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

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

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

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

MS. RAND: John Fogarty?

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

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

MS. RAND: Gerry Edwards?

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

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

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