NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on October 14, 2009 that related to the Board's concept release on requiring the engagement partner to sign the audit report. Other topics discussed during the October 14, 2009 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

(PCAOB)

STANDING ADVISORY GROUP MEETING

9:03 a.m.

Wednesday, October 14, 2009

National Association of Home Builders

1201 15th Street, N.W.

Washington, D.C.
So the third, the third item we have is the concept release on potentially requiring the engagement partner to sign the audit report, in addition to the firm. And that comment period has closed as well, and Bella Rivshin is going to give a summary of the comments received here.

BELLA RIVSHIN: Good afternoon. The July 28th concept release is the most recent concept release the Board issued to solicit public comment on whether the Board should require the auditor with final responsibility for the audit to sign the audit report, in addition to the currently existing requirement for the audit firm to sign its name on the audit report.

As Marty mentioned before lunch, the SAG discussed this topic last year, and this is after the U.S. Department of Treasury Advisory Committee on the Audit Profession issued their final report, which included this recommendation. The Board received 23 comments from auditors, investors, academics, and others.

As you can tell, there was most of the comment letters came from accounting firms and association of accountants. The comment letters can be found on the Board’s Web site under their rulemaking docket, Number 29, in addition to the comment letters for confirmations and also risk assessment in case after this discussion you are interested in actually looking at some more specific comments.

I think differently than the comments that were received on confirmations and possibly risk assessment, there were very opposing views relating to this topic. I think, similar to the SAG discussion, there were certain individuals on one side who felt very strongly that this is a requirement that will increase audit quality and investor protection. And there were others who felt that this would not provide any additional information as it relates to investors and would not increase the quality of the audit for several reasons.

The investors who commented do think that this would enhance audit quality by strengthening the auditor accountability and improving the transparency of the audit process. There were academics who commented that such a requirement could have a num
Auditors felt strongly that such a requirement would not increase audit quality because partners already held accountable to their own very strong sense of professionalism and accountability supplemented by mechanisms that are in place to allow third parties to hold them accountable. The commenters noted that such mechanisms include the firm’s own system of quality control over its auditing and accounting practice, the firm’s internal inspection process, the PCAOB inspection process, and the oversight by the audit client’s audit committee and other regulators, such as the SEC and State wards of accountability.

Auditors stated that it’s important to recognize that the corporate governance process operates under the various Federal and regulatory regimes under which investors are represented by the board of directors and, in turn, the audit committee. And the audit committee has the responsibility to hire, evaluate, and compensate the audit firm and, therefore, is in the best position to evaluate the firm and the engagement partner.

They stated that it’s unlikely to assist the users of audit reports to evaluate the qualifications or predict the quality of the audit because only knowing the partner’s name, again, would not provide the engagement partner’s expertise on a particular type of audit or his or her track record relating to that engagement and other engagements that partner is associated with. Instead, auditors stated that including the individual engagement partner signature on the audit report could create misconceptions that the single person is responsible for the effort and not the
1. collaboration of individuals in the firm.
2. People did mention that there could be --
3. this type of requirement could lead to some
4. inaccuracies and conclusions about the quality of the
5. audit under certain circumstances because people might
6. be drawn inappropriate or inaccurate conclusions about
7. the audit based solely on the identity of the partner.
8. People who commented on this were mainly
9. auditors and not investors and others. The auditors
10. stated that such a requirement could result in a
11. creation of databases or other type of clearinghouses
12. that would attempt to create a scorecard of the skills
13. and qualifications of auditors, resulting in what was
14. likely to be an incomplete and misleading information,
15. that these types of databases could provide misleading
16. statistical analysis based on the number of audits
17. performed by an engagement partner.
18. Or they could level unfair criticism or
19. create adverse publicity for an individual partner
20. because he or she was named as an engagement partner
21. for a controversial company or a company that has gone
22. through some financial difficulties.

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matter, and you are more than welcome to read them in more depth on our rulemaking docket on our Web site. On that, I’ll open it up for comments to SAG members and observers.

And Wayne Kolins?

WAYNE KOLINS: Yes. Mine is more of a process question. I note that of the 23 comment letters, 17 were from accounting firms or associations of accountants. Six were from nonaccounting-related sources. In the Board’s deliberation of a standard, obviously, you’re looking at the substantive nature of the comments that are made. But to what extent is there -- do you weigh the quantitative nature of the comments espousing a certain position?

BELLA RIVSHIN: I think it’s the quality of the comment that is made versus the number of times a comment is made. If there is one person that makes a very significant, well thought-out comment, the Board will take that into consideration, even if they were the only individual who made that comment.

But we always hope that many people will -- many more people will comment on our standards and awareness on the part of the public about this process rather than anything definitive about what their views would be if they were more aware.

BELLA RIVSHIN: Gaylen Hansen?

GAYLEN HANSEN: During the Treasury Committee proceedings and the testimony, the investors felt very, very strongly about this. So maybe we only had a couple of comment letters, and that would be consistent with what Barbara had just mentioned.

We’ve been over these arguments. I didn’t hear any new arguments in the comment letters that we’ve heard during the testimony that came before ACAP or in the discussion that we had last year, or maybe it was the last SAG meeting, on this particular issue.

But we’ve been doing what we have for the last hundred years. And if we keep doing things the way we always have, then why would we expect a different outcome?

And perhaps it might be time to try something a little bit different?

But I found the comment on the idea that we’re going to have a shortage of partners willing to sign audit reports particularly -- I just -- I don’t

PAUL SOBEL: Kind of as a follow-up to what Wayne just mentioned, it seems to me that if only two responses represented investors, I would perceive from that that there is a high level of ambivalence among the investors and that, therefore, I’m not sure if there’s a reason to move forward with this. Obviously, the audit firms are probably pretty dead set against it. And if the investors don’t seem to think it matters, why are we talking about it?

BARBARA ROPER: This is Barb Roper. Could I comment quickly on that?

BELLA RIVSHIN: Yes, Barbara?

BARBARA ROPER: I just think that’s not an assumption that you can make from that low number of responses. I think if you looked across the issues that the Board addresses, the sad fact is that there is consistently a low number of investor responses and that it is a mistake to assume that that reflects ambivalence.

I think it’s as likely to reflect a lack of even know how to respond to that. I just don’t see that happening that people are going to be not willing to step up to the plate and there will be a shortage of partners. I don’t see that happening.

BELLA RIVSHIN: Joe Carcello?

JOSEPH CARCELLO: Well, I was involved with one of the comment letters. So how I feel is known. So I’ll try to keep what I say brief because there’s so much that you said I could respond to.

First, in response to Paul, yes, there were only two investor groups that commented. I would point out that one of those investor groups is essentially an umbrella investor group. Jeff may want to pipe in here at some point. But that investor group controls or the membership of that investor group has $3 trillion of assets under management.

And the other investor group that commented or other investor has $200 billion of assets under management. So these are very, very significant investor groups.

The second point I would make is I would encourage the Board to look at the comment letters from...
individual partners. I think there is enough legal
liability. So I don't think they need more legal
liability.

So I think that's a fair argument. Some of
their other arguments I thought were pretty weak. But
I think that's a fair argument.

And given the opposition by the firms, I
think I have a very simple solution for you, and that
is the United Kingdom has implemented this requirement:
in 2008. As of December 31, 2009, you're going to have
2 years of data. Study the data. See what happens.

Does mean behavior change? Does the variance
change? What are the outcomes, both good and bad, of
this requirement? Talk about a petri dish. Short of
Canada, the United Kingdom is going to be as close as you're going to get. And so, I think that
could be very informative to the Board.

BELLA RIVSHIN: Thank you, Joe.

JEFF MAHONEY: I think Joe just covered every
point I was going to make, but maybe I have a couple
more. So thank you, Joe.

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So it would appear, to an outside party, that
in terms of what investors want, the United Kingdom is
leading, and the United States is lagging. As an
American citizen, as an investor, that makes me
uncomfortable.

I would agree with the firms that I think in
most cases, this will not matter. If we were to look
at the partners in this room, these are all people of
high integrity and high competence, and I don't think
it would make any difference on the audits they do.
But I do think it could matter in the tails.

I won't go into too much depth, but there
have been enforcement actions by the PCAOB against some
individual partners — in my opinion, somewhat
egregious cases of knowing behavior. And if that
person had to sign his or her name, would it have been
different? It's hard to prove in advance, but it
certainly might.

It's obvious that the firms are against this.
The one argument that they made that I do agree with is
I do think it's important to craft whatever you do here
so as to not increase legal liability on the part of

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Just a couple to add on. One of the
individuals who brought this to the attention of the
committee, a very prominent accountant that we all
know. His name is in the report, so I'm not going to
name him, but worked for a "big four" accounting firm.
I asked him if he was on the Treasury Committee, what
is the number-one thing that he would recommend, and
this was his idea. Former big four partner,
internationally known, very well respected.

I've also had conversations offline with big
four auditors on this point and the arguments, and I
get a little bit different story than what you recited
in the letters. I've heard all the arguments as part
of the Treasury Committee, and I find most all of them
very weak.

I would also point out on the legal issue, I
agree with Joe on that. The committee discussed that.
We had some very prominent attorneys involved in that
process. You'll see in the Treasury report that they
indicated that this could be done without imposing
additional liability on auditors with language similar
to language that was used for Section 407 on audit
committee financial experts. That’s Footnote 87 in the Treasury report. Thank you.

BELLA RIVSHIN: If there aren’t any other comments, we will move on to our next topic on fair value measurements and the use of specialists.

MARTIN BAUMANN: I hope you found this helpful that we will from time to time, as we have standards that we’re proposing or concept releases that are outstanding, as we get comments, we’ll try to share it with the SAG to try to keep you updated as we’re moving ahead with our standard-setting and to bring that before the SAG and see if there’s any further input that we can get from you in our thinking.

So I found it useful, and I hope you all did as well.
Meeting of the Standing Advisory Group

October 14, 2009
9:00 a.m. – 2:30 p.m.
Update on Proposed Standards and Concept Release Issued

Keith Wilson, Dee Mirando-Gould, and Bella Rivshin

*Associate Chief Auditors, Office of the Chief Auditor*
Update on Proposed Standards and Concept Releases

- Proposed standards on risk assessment
- Audit confirmations concept release
- Signing the auditor’s report concept release
Signing the Auditor’s Report

Comment Letters Received

- Firms and association of accountants: 17
- Academics and associations of academics: 3
- Investor representatives: 2
- Other individuals: 1

Total: 23
Signing the Auditor’s Report

Key Themes of Comment Letters

- Opposing views on whether the engagement partner should sign the audit report
- Opposing views on whether requiring the engagement partner to sign the audit report will enhance audit quality and investor protection
- Opposing views on whether such a requirement would improve the engagement partner’s focus on his or her existing responsibilities
- Opposing views on whether the transparency of requiring the engagement partner to sign the audit report would be useful to investors, audit committees, and others
- Opposing views on whether requiring the engagement partner to sign the audit report would allow users of audit reports to better evaluate or predict the quality of a particular audit
Some commenters stated that requiring the engagement partner to sign the audit report could lead to inaccurate conclusions about audit quality under some circumstances.

Some commenters stated that there are potential unintended consequences of requiring the engagement partner to sign the audit report.

Some commenters stated that there could be an effect on the engagement partner’s potential liability in private litigation.