NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board’s Standing Advisory Group meeting on December 1, 2016 that relates to Proposed Amendments Relating To The Supervision of Audits Involving Other Auditors And Proposed Auditing Standard—Dividing Responsibility for the Audit With Another Accounting Firm. The other topics discussed during the November 30-December 1, 2016 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board’s website at: https://pcaobus.org/News/Events/Pages/SAG-meeting-November-2016.aspx.
The Advisory Group convened in Academy Hall in the headquarters of FHI 360, located at 1825 Connecticut Avenue, NW, Washington, DC, at 8:30 a.m., Marty Baumann, Moderator, presiding.

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PETER C. CLAPMAN, Senior Advisor, CamberView Partners, LLC
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KENNETH A. GOLDMAN, Chief Financial Officer, Yahoo, Inc.
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SIR DAVID P. TWEEDIE, Chairman, International Valuation Standards Council
CULLEN WALSH, on behalf of Larry Smith of the FASB
JOHN W. WHITE, Partner, Corporate Department, Cravath, Swaine & Moore, LLP
MEGAN ZIETSMAN, on behalf of Arnold Schilder of the IAASB

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STEPHANIE HUNTER, Assistant Chief Auditor
DENISE MUSCHETT WRAY, Assistant Chief Auditor
JESSICA WATTS, Associate Chief Auditor
KEITH WILSON, Deputy Chief Auditor
MR. ANDRIYENKO: Thank you, Marty. We are happy
to give you an overview of comments on the proposal on the
supervision of other auditors. I am going to go through
a few introductory slides and I am going to turn it over
to my colleagues after that.

Joining me for the presentation today are Denise
Muschett Wray and Stephanie Hunter to my right. They have
put a lot of effort in preparing the proposal. Now we have
been all working hard together analyzing comments in the
comment letters. Also at the table is Deputy Chief
Auditor Keith Wilson, who also works on the proposal.

I am going to put the slide up. I am not going to
go through the standard disclaimer. I just wanted to
note, perhaps stating the obvious, that our presentation
is a fairly high-level overview of comments. The actual
comment letters in their entirety are, of course, on our
website in Rulemaking Docket 42.

This slide is a very brief refresher on the project.
The proposal was issued on April 12th this year. It was
designed to increase the lead auditor's involvement in an
evaluation of the work of other auditors, also to enhance
the lead auditor's ability to either prevent or detect
deficiencies in the work of other auditors, and ultimately, to facilitate improvements in the quality of work of other auditors.

The proposal builds on the existing requirements in PCAOB standards. It would amend several of the existing standards, namely standards of supervision, planning, the engagement of quality review, and documentation. It would supersede one of the existing PCAOB standards, the one that has been on the books since the early 1970s and currently governs some of the audits that involve other auditors, that is AS 1205 or, as we currently know it, AU 543.

And finally, the proposal would provide a new auditing standard for situations in which the lead auditor divides the responsibility for the audit with another accounting firm. So, this is a proposed standard 1206. And currently, these audits are governed by AS 1205.

On this slide, you can see who actually commented on the proposal. The PCAOB received 23 comment letters, most of which came from the accounting profession, the accounting firms and associations of accountants.

The proposal included almost 60 fairly detailed
questions to commenters and we did receive some very
detailed responses to our questions. Many of the
commenters responded to either every single question or
covered all of the key areas of the proposal. And we are
currently going through the comments. We are analyzing
the comments. Our discussions are still ongoing within
the team and within the PCAOB.

Just a few words about general themes in comments.
In general, commenters agreed with the stated reasons in
the proposal for amending auditing standards and also with
the general direction that the proposal took, which is to
require that the lead auditor uses risk-based approach to
supervising other auditors. And that is important for
determining the appropriate extent of supervision of the
other auditor, appropriate extent of involvement in the
work of other auditors and evaluation of their work.

And you can see on the slide the commenters said
that -- some commenters said that many of the proposed
changes are a step in the right direction, that it would
improve the quality of audits, and enhance investor
protection. But there are comments that indicated
concern whether the proposal really strikes the right
balance between the lead auditor's involvement in the audit and the other auditor's involvement in the audit. And even those who supported the overall direction of the proposal were asking questions and asking for clarification on certain aspects of the proposal and then making suggestions in their comment letters. And we are going to go through those comments, as we go through the presentation.

These are the key areas of comment that we thought we would cover today. We would start, naturally, with audit planning, which includes several proposed requirements, including the sufficiency of requirements for determining sufficiency of the lead auditor's participation in the audit, requirements related to determining compliance of the other auditor's compliance with ethics and independence, requirements of the PCAOB and the SEC, and the assessment of the knowledge, skill, and abilities of the other auditor.

Then, we will move on to comments related to supervisory requirements in the proposal. We will talk about the divided responsibility audits, that is the new
proposed standard, and the requirements for the engagement quality review.

Then, we will talk about a potential unintended consequence of the proposal, whereas, the other auditor may feel a little less accountable for their work, now that the lead auditor is going to be more involved in the audit.

And we will conclude with discussing comments and various aspects of the economic analysis.

I am going to turn the mike over to Denise. She will cover the area of planning and she will talk about some of the supervisory requirements. And then Stephanie will continue on. She will wrap up the supervision and cover the rest of the topics.

MR. BAUMANN: And I just wanted to point out some may not be clear in the slides up there on the screen. Everybody should have a copy of these slides in their folder.

MS. WRAY: Thank you, Dima. Good morning, everyone. As Dima indicated, I will go over with you comments we received on the proposed requirements related to planning an audit that involves the use of other auditors. So, it is proposed amendments to AS 2101 as well
as comments we received on a couple of the proposed requirements related to supervision of the work of the other auditor.

And so on this first slide, we have summarized comments we received relating to a proposed requirement that the engagement partner determines whether his or her firm is sufficiently involved in the audit to serve as lead auditor. The determination would be based on the risk of material misstatement associated with the portion of the financial statement audited by the engagement partner's firm relative to the portion audited by the other auditors.

Ordinarily, the lead auditor would need to audit the location at which the primary financial reporting decisions were made and the consolidated financial statements were prepared in order to address the risk related to these very important judgments and activities. As well, the auditor would need to audit a sufficient number of other locations to cover the greater portion of risk than any other audit firm that is involved in the audit.

As we can see on the slide, some commenters indicated that an auditor should not issue an opinion when
not sufficiently involved in an audit and that describing the sufficiency criteria in the standard, in terms of risk, is appropriate.

Several commenters were concerned whether the proposed requirements could be effectively applied to certain situations they encountered in practice. Some of these commenters asked the Board to provide more examples in the release to illustrate how these scenarios would be addressed by the amendments. For example, some commenters asked to clarify how the proposed requirements would apply when one auditor audits a significant portion or a sizeable portion of the company or when more than one auditor audits a sizeable portion of the company.

A few commenters asked us to clarify whether the lead auditor's close supervision of another auditor could be counted towards the lead auditor's participation in the audit.

Several commenters asked questions about situations in which the auditor who meets the sufficiency criteria is not licensed in the jurisdiction of the issuer's headquarters. For example, if the issuer is headquartered in a U.S. state that requires the auditor
to be licensed in that state, commenters asked the Board
to provide more explanation about how the requirements
would be implemented in those situations.

The second comment theme relating to audit planning
addresses the proposed requirement for the lead auditor
to determine the other auditor's compliance with ethics
and independence requirements of the PCAOB and the SEC.
The proposal would require the lead auditor to gain an
understanding of the other auditor's knowledge of and
experience in applying the ethics and independence
requirements and obtain a written representation of
compliance from the other auditors.

The proposed requirement is intended to provide the
lead auditor with specific direction for complying with
existing requirements for planning an audit that involves
other auditors. Several commenters supported obtaining
from other auditors a written representation of compliance
with ethics and independence requirements.

We do note, however, that some commenters observed
that when read in conjunction with the proposed definition
of other auditor, the use of other auditor in this
particular requirement could be interpreted to mean that
the lead auditor would need to obtain a written representation from each individual engagement team member who is not employed with the lead auditor.

Several commenters also recommended clarifying whether the lead auditor can rely on the quality control system of another auditor from the same audit network when determining which procedure the lead auditor should perform to comply with the proposed amendments.

This slide shows the last set of comments on the proposed requirements related to planning that we will discuss and it relates to those requirements for the lead auditor's understanding of the knowledge, skill, and ability of certain engagement team members at the other auditor.

Commenters generally agreed that understanding the qualifications of the other auditor is important when the lead auditor determines the extent of its supervision of the work of other auditors. However, this is also an area for which commenters wanted to know if the lead auditor may rely on its network's quality control system when the other auditor and the lead auditor are in a common network.

For this particular requirement, commenters
thought that the lead auditor should be able to rely on, for example, information regarding their network's training policies and programs.

Some commenters thought that the proposed requirement should apply only to those engagement team members at the other auditor who assists the engagement partner with planning and supervision. Other commenters thought the requirement should be expanded to apply to other engagement team members of the other auditors.

Commenters who were in favor of expanding the requirement were concerned, for example, that, as proposed, the requirement does not contemplate those engagement team members of the other auditor's firm who, although not assisting the engagement partner with planning and supervision, perform work that is significant to the audit.

Specialists who are part of other auditor's team and perform work that is significant to the audit as a whole were cited as an example of where expansion of this requirement could, in the views of those commenting, lead to improvement in audit quality.

One commenter suggested that the Board consider
allowing the lead auditor to determine on a case-by-case basis whether to apply this requirement only to those engagement team members assisting with planning and supervision or to other engagement team members on the other auditor's team.

With this slide, I will now switch gears to the proposed requirements related to supervising the other auditor's work. Before jumping into the actual themes, it may be worth repeating that the proposed requirements are intended to build on existing supervision requirements that are in our standards for the work of other auditors and it is intended to give the lead auditor more specific directions in terms of how to comply with existing standards, existing requirements.

With that, the first comment theme that we have on this slide relates to the proposed requirement for the lead auditor to inform the other auditors in writing about their responsibilities. Some commenters were generally in agreement that written communication of the lead auditor's instructions to other auditors would improve audit quality.

Some commenters were unclear as to whether the lead
auditor's communication should include all the risks or only those relevant to the other auditor's work. The commenters who had this concern indicated that requiring the lead auditor to communicate all risks would be too broad of a requirement and could result in significantly more work.

The second half of the slide deals with comments on a proposed requirement for the lead auditor to obtain from other auditors a written report that would describe the other auditor's procedures, findings, conclusion, and where applicable, opinion.

We noted that the intended scope of this particular communication appeared to be unclear for some commenters. Some commenters, for example, discussed scaling this requirement to the scope of the other auditor's work. One commenter noted that for certain circumstances, the Board could consider allowing the lead auditor to conduct discussions with the other auditor and perform a more detailed review of the other auditor's work as an alternative to this written report.

Other commenters asked whether the Board intends for the other auditor to report to the lead auditor a
summary of each procedure performed by the other auditor
or provide a more risk-based reporting of procedures
performed to address high-risk areas. Some of those who
commented on this requirement asked for additional
guidance on the form and content of this written report.

This slide has the last area that I will cover for
you and it relates to the proposed requirement for the lead
auditor to review a description of other auditors' planned
audit procedures and the results of the other auditor's
work.

Some commenters noted a few areas in which these
proposed requirements could be clarified. For example,
some commenters noted that a requirement for the lead
auditor to review detailed audit programs of the other
auditor would be too onerous, especially when the other
auditor is performing a full-scope audit.

Some commenters asked that the Board consider
allowing the lead auditor to better leverage the review
performed by partners and managers of the other auditor's
firm who are experienced and well-qualified. One
commenter asked that the Board clarify the application of
the review requirement in certain circumstances, such as
when the lead auditor uses a translator for work that has been documented in a foreign language.

Lastly, several commenters ask whether the lead auditor may leverage its network quality control system -- again, as you can see, this is a common question -- in determining the extent to which it performs these requirements for other auditors within the lead auditor's network.

I will now turn it over to Stephanie to complete the other supervision comments in the other areas.

MS. HUNTER: Thank you, Denise.

Okay, so I will cover the final comment theme relating to the lead auditor's supervision of other auditors. And specifically, I am going to discuss the comments on the supervisory requirements for multi-tiered audits.

To review the proposal, in an audit involving multiple tiers of other auditors, the proposal would allow the lead auditor to direct the first other auditor to perform, on behalf of the lead auditor, certain supervisory procedures with respect to the second other auditor.
Certain other supervisory procedures should be performed by the lead auditor, such as communicating scope of work, tolerable misstatement and risk of material misstatement.

As you can see on the slide, commenters generally view the involvement of first-tier other auditors in supervising lower-tier other auditors as important because of the first-tier other auditor's knowledge of company business at their level.

Some commenters suggested allowing for greater involvement of first-tier other auditors and supervising lower-tier other auditors. For example, allowing the first-tier other auditor, rather than the lead auditor, to perform supervisory procedures for the next tier other auditors.

Another commenter suggested requiring the lead auditor to obtain information about the first-tier other auditor's supervisory decisions as part of the lead auditor's supervision of the first-tier other auditor.

Some commenters recommended clarifying how proposed requirements would apply when an audit involves more than two tiers of other auditors.
So, now we have covered the key areas of the comments related to the proposed amendments on planning and supervision. So, I want to move on to some of the other comments and specifically we are now going to cover the new proposed standard for divided responsibility audits.

As Dima introduced earlier in this session, in some situations the lead auditor divides responsibility for the audit with another accounting firm that audited and issued an audit report on the financial statements of a portion of a company. For example, the lead auditor may divide responsibility for the audit with the other auditor if it is impracticable for the lead auditor to review the other auditor's work. And those divided responsibility situations are relatively uncommon. As you see on the slide, there were approximately 50 of these such audits in fiscal year 2014. So, it is relatively uncommon.

When the responsibility for the audit is divided, the lead auditor discloses that fact in its report on the consolidated financial statements.

The proposal includes a new separate auditing standard, as Dima mentioned earlier, AS 1206, specifically for these divided responsibility audits. Proposed AS
1206 would maintain the requirement that the lead auditor disclose in its report which portion of the financial statements was audited by the other auditor or, in the terminology of the proposal, the referred to auditor.

Commenters generally supported retaining the auditor's ability to divide responsibility and provided some specific comments and suggestions for the proposed standard. One area, as you will see on this slide, where the proposed new standard describes conditions that must be met for the lead auditor to divide responsibility for the audit with another accounting firm.

One of these conditions, under the proposal states that the lead auditor may divide responsibility only if the financial statements of the company's business unit audited by the referred to auditor were prepared using the same financial reporting framework as the framework used to prepare the company's financial statements.

According to some commenters, such situations exist today and may become more prevalent in the future because of broad use of IFRS and expected increased rotation of auditors involved in international audits. I will also note that both the SEC Staff's Financial
Reporting Manual and ASB's AU-C Section 600 address these situations.

Therefore, the commenter suggested that the proposed standard allow division of responsibility when the company and its subsidiary used different financial reporting frameworks.

Lastly, some commenters recommended providing certain clarifications and examples relating to applying the proposed standard in integrated audits.

Our next slide addresses the Board's proposal, including an amendment to the standard on the engagement quality review, AS 1220 or currently AS 7.

Under the proposed amendment, the engagement quality reviewer would be required to evaluate the engagement partner's determination that the participation of his or her firm is sufficient for the firm to carry out the responsibilities of a lead auditor. And Denise covered comments earlier regarding the determination of sufficiency.

As for the proposed requirement for the EQR, some commenters supported the requirement as proposed, while some commenters question whether the determination of
sufficiency is always a significant judgment and thus should always be reviewed by the engagement quality reviewer.

Our next topic relates to a potential unintended consequence Dima brought up earlier and it is discussed in the Board's proposal. And this is relating to the other auditor's accountability.

Here, the proposal would supersede, as we have mentioned before, AS 1205, currently AU 543, and would not retain a statement that, quote, "the other auditor remains responsible for the performance of his own work and for his own report."

To mitigate the potential unintended consequence that the other auditor could feel less accountable, the proposal includes a requirement that the lead auditor obtain from the other auditor a written report describing the other auditor's procedures, findings, conclusions, and, if applicable, opinion. And Denise discussed this earlier.

Notably, under the proposal, the other auditor would continue to remain responsible for, among other things, obtaining sufficient appropriate audit evidence
to support its written report describing the other auditor's procedures, findings, conclusions and, if applicable, opinion. Some commenters said that not retaining a statement about the other auditor's accountability in AS 1205 would imply a free pass to other auditors regarding the quality and sufficiency of their work. The potential reduction in accountability of the other auditor, whether actual or perceived, may adversely affect audit quality. For example, because the other auditor could be in the best position to supervise the day-to-day responsibilities of a portion of the audit performed by other auditors.

Some commenters suggested that the Board retain in the standards a statement that other auditors are responsible for their work.

Okay, so my final area of discussion is on certain aspects of economic analysis. Again, as Dima introduced earlier, we will discuss certain aspects of the analysis. As a reminder, the proposing release includes an economic analysis that described the baseline for evaluating the economic impacts of the proposal, analyze the need for the proposal, and discuss potential economic impacts of the
proposed requirements, including the potential benefits, costs, and unintended consequences. The analysis also discussed alternatives considered.

With respect to the description at baseline and need for the proposal and the proposing release, commenters generally agreed that changes in the business environment, company, an audit firm structure, regulation, and financial reporting standards support the need for change. For example, commenters agreed with the need to update PCAOB standards by integrating the requirements for using other auditors into the risk-based approach.

Commenters generally agreed with the description of existing audit practice in the proposal and provided additional relevant information. For example, several firms acknowledged that they have already updated their methodologies for audits involving other auditors.

With respect to the description of economic impacts in the proposing release, including benefits and costs, some commenters provided information in support of the description of potential benefits. One commenter stated that the proposed amendments would provide more
transparency about audits involving other auditors and would, therefore, benefit investors and the public.

Another commenter said that the proposed changes should decrease the overall likelihood of misstatement by enhancing the verification process of information relied upon by other auditors and, therefore, should serve as added safeguards for the investors and general public through their ability to rely on the financial statement data and related disclosures.

As in the example Denise gave earlier, some commenters asked whether certain proposed requirements are designed to be sufficiently scalable based on risk. If not, the commenters caution that the amendments could be unnecessarily burdensome without corresponding benefits to audit quality.

Some commenters also caution that some smaller firms could face more significant cost increases than larger firms. And as a result, some firms could determine that they would no longer perform audits that require the involvement of another audit firm.

And now I am going to turn it back to Dima.

MR. ANDRIYENKO: Okay, thank you very much Denise
and Stephanie for your presentation. As you can appreciate, the proposal is covering a lot of ground. It touches on several key audit areas and would amend many of the existing key auditing standards.

As I said, we asked many questions in the proposal, almost 60, and we got a lot of comments. We are going through these comments today. We were going through the comments at the PCAOB but if you have additional comments and any questions, please feel free to put up your tent card and we will call on you. We had a fairly lively discussion of this topic back in May, when the proposal just went out, and we are happy to continue today. Sri.

MR. RAMAMOORTI: If you could take this slide back to the reference to [AS] 1205.03, just a couple more.

Yes, so when I read that, it is obviously gender-biased usage. So, I just want to point out that I am glad that section is going out. Hopefully, you will be replacing it with better language. But I should just point out in general that when I first started teaching in the United States, about 60 percent of my students were young men and 40 percent were women. Now, it is exactly the opposite. It is about 60 percent women in my classes
and 40 percent men.

And so I tell you to be very careful. Do not use his or her unless you want to say he and she and all that, which of course is very painful. So, I propose to them a solution which I did in my Ph.D. dissertation, which is make a note that this is being used as an epicene personal pronoun, which means depending on context you read the his as a her if that is relevant.

MR. ANDRIYENKO: Yes, thank you for this comment. This was written in the dark days of standard-setting back in the '70s. As you can see, I think you can even appreciate it looking at us who are presenting at this table, we are cognizant of this issue. And you will probably not see it in our standards but thank you, Sri.

Liz Murrall.

MS. MURRALL: Thank you very much. And thank you very much for your work in this area and increasing the supervision -- your requirements for the supervision of other auditors. I think that is very welcome.

Investors invest internationally and their preference would be for harmonized requirements to apply internationally for audit. But I note that whereas the
PCAOB is allowing divided responsibility and a reference to be made to that in the audit report, the same is not allowed by the IAASB in ISA 600. And, indeed, even in the U.K. where we have ISA 600-plus, we go on to say the group engagement partner's firm bears the full responsibility for the auditor's report on the group financial statements.

I mean both the IAASB and the PCAOB address the audits of multinational companies but I question why you need to have a different approach because I think for many investors, divided responsibility would be seen as a limitation in scope.

MR. BAUMANN: I will just comment on that briefly. Again, it exists today in current standards in the United States. So, we have put this out as a proposal to see how people react to it.

And I think maybe Megan can comment on this. I have heard, as I have sat at the IAASB CAG, as they have thought about ISA 600, the group audits, that there are situations where the lead auditor just doesn't have access to the audit work of an equity investment or something like that, which is part of the financial statements.
So, should the lead auditor still sign the opinion of the consolidated financial statements, even though he or she cannot potentially audit 100 percent of the work, or should the divided responsibility exist, or should there be some other solution? So, I think it is something we are exploring as part of the proposal and I'm not sure where we will come out on this at the end of the day. But there are relatively few situations today.

Megan, is this something where you have heard some issues at the IAASB?

MS. ZIETSMAN: Yes, Marty, thanks. And it definitely is something that is on the IAASB's list of issues. I think, as you know, we have an ongoing project to look at our group audit standard and we did a very significant consultation where we put out all of those issues, which included some questions around the issue of divided responsibility. I mean Liz is right, that [ISA] 600 today does not provide for the ability to divide responsibility or make reference to the report of another auditor in the report.

But what we heard -- actually, I will just take a step back. When the IAASB started its project, their
intent was not to open up that debate because that had been
a very hotly debated issue when ISA 600 was first finalized
and I think actually was the issue that contributed to that
standard having to be re-proposed a couple of times before
it actually got finalized.

So, our intention was not to open up that can of
worms all over again but it did come out as we started to
explore the issues. And like you pointed out, there are
situations like an equity method investment where you just
don't have the same kind of access at management level,
as well as at the audit level to really be able to do it.

And I think actually it was at the CAG that one of
the CAG members put the question on the table that if you
have a situation where you have an equity method investment
that is, itself, a listed company that is audited, that
has a stand-alone auditor's report, that investors are
using to make investing decisions about with respect to
that company, why then would it not be permissible to have
a reference in the report of the company that has an
investment in that company to that report. And maybe that
would be preferable to putting the auditor in somewhat of
an artificial position where you really don't get the same
kind of access that you might when it is a component.

So, the IAASB has received a lot of feedback and I think, like Liz pointed out, I think there is a very strong view that sole responsibility is the way that it should be and that we shouldn't open up this issue. But the IAASB still has to go through the process of fully digesting all the feedback and deciding whether there is actually a narrow set of circumstances where divided responsibility may make sense.

And the other situation that has been put on the table is the situation where you have a transaction or an acquisition that happens really late in the year and it is very difficult for the auditor of the acquiring entity to really do everything that needs to get done.

So, I think the jury is still definitely out but it continues to be a big issue.

MR. BAUMANN: Your card was otherwise up. Were there other things that you wanted to point out?

MS. ZIETSMAN: Yes, the only other thing I really just wanted to point out was as I think I just mentioned, we do have a project that is ongoing with respect to [ISA] 600. Obviously, ISA 600 is a different standard than what
is in the PCAOB standards. It is a standard that has a lot of issues, which is what has led the IAASB to put it back on its agenda. But I think the one thing that we did hear in the response to our feedback, and I think actually it was mentioned in the presentation the fact that firms have both methodologies around [ISA] 600 and there was a recognition, I think broadly across our stakeholders, that [ISA] 600 has been an important standard in improving the quality of the multi-location audits. So it has been helpful.

So, notwithstanding that there are issues and challenges, it is a good standard and I think we got told don't throw it away.

But at the same time, the other project that is relevant is we have a project that is focused on ISA 220, which is our standard that deals with quality control at the engagement level. And really what we are trying to do with that one is to take the kind of principles of quality management and drive that into that standard and I think, actually, the work that the PCAOB has done in respect to the way you have looked at this issue has been very helpful to us in terms of looking at well, how do you
build a model that really drives the level of involvement
that is necessary in looking at the supervision model and
thinking about how it might work in different
circumstances.

So, I think a lot of the issues that we are dealing
with are very aligned with the issues that you have just
been talking about now. So, things like reliance on
networks. You know I think the other thing we are starting
to think about also is the situations where you have what,
at least at the IAASB, we have called audit delivery
models, where you have different types of engagement team
structures and involvement of centers of excellence that
may be on-shored, maybe off-shored but where you have
resources sitting in different locations.

And then the other situation, Marty, that you
mentioned yesterday about when the partner is not located
where the work is being performed and that has been pointed
out as a big gap in our standards as well.

So, I think between our two standards there -- well,
I think we are dealing with the same issues. So I think
the feedback that you have received is very informative
to us and, likewise, I think the feedback on our ATC is
very informative too to the two projects. So, I think there is a lot of scope for us to think about how to solve these issues together. Thank you.

MR. ANDRIYENKO: Thank you, Megan. Tom Selling.

MR. SELLING: Thanks. I am going to start by stating a couple of things which may be obvious to people but I think they lead to what my recommendations are.

It seems to me that the premise of the standard is to be able to reasonably accommodate issuers that wish to avoid the cost of engaging a single auditor in circumstances where the costs of doing so are unreasonably high or even prohibitive.

Accordingly, the PCAOB is proposing new and untested requirements to compensate for the added risk of a single auditor not performing the entire audit, which recent experience has indicated is a serious risk.

I expect that the PCAOB's original proposals were motivated by inspection results and enforcement actions. So, it is difficult to predict whether the additional procedures you are proposing will be cost-effective.

And as I said, so far, everything I have said really so far is obvious but these are my suggestions. In
consideration of these observations, I would like to suggest that the PCAOB consider an approach to rulemaking that keeps its options open. For example, where the comments you summarized suggest that rules are burdensome, to give the commenters, initially, the benefit of the doubt until post-implementation review and new experience from inspections and enforcement provide information as to how any new rules are working.

In that same spirit, perhaps the PCAOB should at least consider making the proposal scalable to provide extra accommodations for smaller companies.

On the other hand, I think that the determination of who should be the lead auditor should be determined in a rigid, rigorous way at all times with not a lot of room for discretion by the auditor group. I think that is qualitatively a different aspect of the proposal and should be treated differently from a policymaking view.

MR. ANDRIYENKO: Thank you, Tom. We are making notes of your suggestions. And of course, as I said, there were many comments we received in different areas and we are considering them now. I appreciate it.

MR. SELLING: You don't have to make notes, I have
it written down word for word.

MR. ANDRIYENKO: And we will have a transcript, yes. Thank you.

Mike Santay.

MR. SANTAY: Thanks, Dima and thanks to your group for all your hard work in this area.

Two things. One, I just wanted to mention on the divided responsibility, I know we talked about that at the last SAG, and after the meeting, Jeanette Franzel, who I don't think is here, reminded me that the GAO is one of the largest proponents of maintaining divided responsibility as an option in the U.S. because it is important for their audits. And as you know, they use U.S. auditing standards, board-set standards for GAO audits. So, it was important to them at the time to maintain that because of how government audits are performed. So, I just thought I would share that.

And secondly, again thanks for doing the project. I think Megan said a lot of what I was thinking about here. You know, setting standards for the private companies in the U.S., we look to converge with the IASSB. We did, the Board did a significant convergence project a few years'
back. So, our main focus is that. But we also are looking
to minimize differences with the PCAOB. We have an active
group of the Board that looks at PCAOB standards-setting,
monitors it, and where standards are finalized that we
believe would be a good enhancement for private company
audits, we make those changes. So, we are trying to
balance both. So, I think it is important.

And I think, Megan, you said the issues, there are
a lot of common issues here. And I think there some common
objectives, too. And really, it is about managing the
risks of these sometimes very complicated
multi-jurisdictional location audits. So you know,
getting the risk assessment right, getting the response
right, if there is other auditors involved, getting the
supervision right, some of those common themes are
resident in both projects.

So, I am grateful that there is going to be
continued informing between the two projects because I
think, especially from a U.S. perspective, with our
experience with divided responsibility and other things,
I think there are some good things in both projects. And
sometimes I think you mentioned the issues, the [ISA] 600
standard as it is now, it is a bit of a forest and the trees. And many of the issues have been more about how do I comply with the standard, as opposed to how do I do a good quality audit. I know it is an inspection focus of Helen and her group. So, I think that will also probably help inform your project as you go along.

But anyway, that is my observation.

MR. ANDRIYENKO: We are a little overtime. I think we will allow for one more comment. Phil Santarelli.

MR. SANTARELLI: Thank you. And Mike, that was a good lead-in. I have a comment and a question.

I was actually involved in the AU-C 600 Task Force when ASB was writing that standard. And one of the things that struck me, I know I have said it before, I am repeating myself, but it was my perception at the time that the demands that were going to be placed on what was referred to as component auditors were much different than the current status of AU 543. And I recommend at least thinking about ways to get those other auditors that are doing a significant portion of the audit and, thus, in scope for PCAOB registration and rules, to consider some
standard-setting related to how they should relate, how they should react to the principal auditor.

And then for Megan, I don't want to put you on the spot. I know you did a post-issuance review on ISA 600 and you mentioned some issues have come up. Can you share them with the SAG? It might be beneficial, if you can, on what some of those issues were.

MS. ZIETSMAN: So, I probably won't get all of the list of all of the issues. But I think one of the issues that did come up was the challenges with respect to equity method investments where you don't have the same -- where the management and the auditor has the same kind of access. So, that was one of the challenges.

I think there is challenges around component materiality and how you approach that and how you set that for different type of components. So, that is a challenge.

There is challenges around the communications between group auditors and component teams, and really having that proper feedback loop.

I'm just trying to think. Challenges around risk assessment and really making sure that risks at the group
level are driven down to the component and how you make sure, as a group engagement partner, that they have been appropriately responded to.

Challenges around different type of groups, giving rise to different types of challenges, when you start dividing them up into components and think about scoping your work at the different levels of components.

So, you know I think like Mike said, I think a lot of the issues are some of the same kinds of issues that the PCAOB is dealing with. And you said it really well, Mike, the fact that the objectives of these are the same. The objectives are to really make sure that we have standards that drive quality work of these types of engagements, which really are very, very complicated. And I think we are also in a world where they are going to continue to evolve, as we look at the different types of technology trends, the different types of ways that entities are structuring themselves.

Actually, sorry, that was one other thing I remember was the evolving use of shared service centers by companies, as well as by auditors. And that really dealt with anyone's standards and how do you deal with
those kinds of situations.

MR. BAUMANN: Dima and team, thank you very much for your comments. You did an excellent job summarizing what we heard, both pro and good questions that commenters raised as part of the proposal.

And thank you, SAG members, for the good input you have given us both today and when we discussed the proposal before.

This is a really important area. I think, as we have all mentioned, we are talking about the largest audit that have the lead auditor who manages that global audit around the world and ensures the high quality audit, not only at headquarters, but at those far remote locations where there could be material operations.

So, we will continue to work hard on this and explore next steps and look together what the IAASB is doing and learn from that as well.