

**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>.

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## PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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## STANDING ADVISORY GROUP

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## MEETING

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THURSDAY,  
DECEMBER 1, 2016

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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.

PRESENT:

JOAN C. AMBLE, President, JCA Consulting, LLC  
 PRAT BHATT, Senior Vice President, Corporate  
 Controller and Chief Accounting Officer, Cisco  
 Systems, Inc.  
 PETER C. CLAPMAN, Senior Advisor, CamberView  
 Partners, LLC  
 CHARLES M. ELSON, Edgar S. Woolard, Jr. Chair of  
 Corporate Governance and Director, John L.  
 Weinberg Center for Corporate Governance,  
 University of Delaware  
 MICHAEL J. GALLAGHER, Managing Partner, Assurance  
 Quality, PwC  
 SYDNEY K. GARMONG, Partner in Charge, Regulatory  
 Competency Center, Crowe Horwath, LLP  
 KENNETH A. GOLDMAN, Chief Financial Officer, Yahoo, Inc.  
 L. JANE HAMBLEN, Former Chief Legal Counsel, State of  
 Wisconsin Investment Board  
 ROBERT B. HIRTH, JR., Chairman, Committee of

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- PHILIP R. JOHNSON, Former Nonexecutive Director,  
Yorkshire Building Society
- JEAN M. JOY, Director of Professional Practice and  
Director of Financial Institutions Practice, Wolf  
& Company, PC
- GUY R. JUBB, Former Global Head of Governance and  
Stewardship, Standard Life Investments, Ltd.
- DAVID A. KANE, Americas Vice Chair, Assurance  
Professional Practice, Ernst & Young, LLP
- SARA GROOTWASSINK LEWIS, Chief Executive Officer, Lewis  
Corporate Advisors, LLC
- JON LUKOMNIK, Executive Director, Investor Responsibility  
Research Center Institute; Managing Partner,  
Sinclair Capital, LLC
- DOUGLAS L. MAINE, Limited Partner and Senior Advisor,  
Brown Brothers Harriman & Co.
- MAUREEN McNICHOLS, Marriner S. Eccles Professor of  
Public and Private Management and Professor of  
Accounting, Stanford University
- DAVID J. MIDDENDORF, National Managing Partner-Audit  
Quality & Professional Practice, KPMG LLP
- RICHARD H. MURRAY, Chief Executive Officer, Liability  
Dynamics Consulting, LLC
- KAREN K. NELSON, M.J. Neeley Professor of Accounting,  
Texas Christian University
- ZACH OLEKSIUK, Americas Head, Corporate Governance and  
Responsible Investment, BlackRock
- GREGORY A. PRATT, Chairman, President and Chief  
Executive Officer, Carpenter Technology  
Corporation
- SRIDHAR RAMAMOORTI, Associate Professor of Accounting,  
School of Accountancy and Director, Corporate  
Governance Center, Kennesaw State University
- BRANDON J. REES, Deputy Director, Office of Investment,  
AFL-CIO
- PHILIP J. SANTARELLI, Partner, Baker Tilly Virchow  
Krause, LLP
- THOMAS I. SELLING, President, Grove Technologies, LLC
- CHARLES V. SENATORE, Executive Vice President, Head of  
Regulatory Coordination and Strategy, Fidelity  
Investments
- DAVID M. SULLIVAN, National Managing Partner - Quality  
& Professional Practice, Deloitte & Touche, LLP

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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

PCAOB BOARD MEMBERS:

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STEVEN HARRIS

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HARRISON GREENE, FDIC  
MARC PANUCCI, SEC  
MIKE SANTAY, Grant Thornton  
CULLEN WALSH, FASB

PCAOB STAFF:

DIMA ANDRIYENKO, Associate Chief Auditor  
MARTIN F. BAUMANN, Chief Auditor and Director of  
Professional Standards  
JAMES R. DOTY, Chairman  
STEPHANIE HUNTER, Assistant Chief Auditor  
DENISE MUSCHETT WRAY, Assistant Chief Auditor  
JESSICA WATTS, Associate Chief Auditor  
KEITH WILSON, Deputy Chief Auditor

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1           MR. ANDRIYENKO: Thank you, Marty. We are happy  
2 to give you an overview of comments on the proposal on the  
3 supervision of other auditors. I am going to go through  
4 a few introductory slides and I am going to turn it over  
5 to my colleagues after that.

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

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

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

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1 deficiencies in the work of other auditors, and  
2 ultimately, to facilitate improvements in the quality of  
3 work of other auditors.

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

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

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

22 The proposal included almost 60 fairly detailed

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1 questions to commenters and we did receive some very  
2 detailed responses to our questions. Many of the  
3 commenters responded to either every single question or  
4 covered all of the key areas of the proposal. And we are  
5 currently going through the comments. We are analyzing  
6 the comments. Our discussions are still ongoing within  
7 the team and within the PCAOB.

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

17 And you can see on the slide the commenters said  
18 that -- some commenters said that many of the proposed  
19 changes are a step in the right direction, that it would  
20 improve the quality of audits, and enhance investor  
21 protection. But there are comments that indicated  
22 concern whether the proposal really strikes the right

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1 balance between the lead auditor's involvement in the  
2 audit and the other auditor's involvement in the audit.  
3 And even those who supported the overall direction of the  
4 proposal were asking questions and asking for  
5 clarification on certain aspects of the proposal and then  
6 making suggestions in their comment letters. And we are  
7 going to go through those comments, as we go through the  
8 presentation.

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

20           Then, we will move on to comments related to  
21 supervisory requirements in the proposal. We will talk  
22 about the divided responsibility audits, that is the new

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1 proposed standard, and the requirements for the engagement  
2 quality review.

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

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

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

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

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

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1 as comments we received on a couple of the proposed  
2 requirements related to supervision of the work of the  
3 other auditor.

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

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

21 As we can see on the slide, some commenters  
22 indicated that an auditor should not issue an opinion when

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1 not sufficiently involved in an audit and that describing  
2 the sufficiency criteria in the standard, in terms of risk,  
3 is appropriate.

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

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

18 Several commenters asked questions about  
19 situations in which the auditor who meets the sufficiency  
20 criteria is not licensed in the jurisdiction of the  
21 issuer's headquarters. For example, if the issuer is  
22 headquartered in a U.S. state that requires the auditor

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1 to be licensed in that state, commenters asked the Board  
2 to provide more explanation about how the requirements  
3 would be implemented in those situations.

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

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

19 We do note, however, that some commenters observed  
20 that when read in conjunction with the proposed definition  
21 of other auditor, the use of other auditor in this  
22 particular requirement could be interpreted to mean that

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1 the lead auditor would need to obtain a written  
2 representation from each individual engagement team  
3 member who is not employed with the lead auditor.

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

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

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

22 For this particular requirement, commenters

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1 thought that the lead auditor should be able to rely on,  
2 for example, information regarding their network's  
3 training policies and programs.

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

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

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

22 One commenter suggested that the Board consider

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1 allowing the lead auditor to determine on a case-by-case  
2 basis whether to apply this requirement only to those  
3 engagement team members assisting with planning and  
4 supervision or to other engagement team members on the  
5 other auditor's team.

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

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

22 Some commenters were unclear as to whether the lead

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1 auditor's communication should include all the risks or  
2 only those relevant to the other auditor's work. The  
3 commenters who had this concern indicated that requiring  
4 the lead auditor to communicate all risks would be too  
5 broad of a requirement and could result in significantly  
6 more work.

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

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

21 Other commenters asked whether the Board intends  
22 for the other auditor to report to the lead auditor a

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1 summary of each procedure performed by the other auditor  
2 or provide a more risk-based reporting of procedures  
3 performed to address high-risk areas. Some of those who  
4 commented on this requirement asked for additional  
5 guidance on the form and content of this written report.

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

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

17 Some commenters asked that the Board consider  
18 allowing the lead auditor to better leverage the review  
19 performed by partners and managers of the other auditor's  
20 firm who are experienced and well-qualified. One  
21 commenter asked that the Board clarify the application of  
22 the review requirement in certain circumstances, such as

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1 when the lead auditor uses a translator for work that has  
2 been documented in a foreign language.

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

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

11 MS. HUNTER: Thank you, Denise.

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

17 To review the proposal, in an audit involving  
18 multiple tiers of other auditors, the proposal would allow  
19 the lead auditor to direct the first other auditor to  
20 perform, on behalf of the lead auditor, certain  
21 supervisory procedures with respect to the second other  
22 auditor.

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1           Certain other supervisory procedures should be  
2 performed by the lead auditor, such as communicating scope  
3 of work, tolerable misstatement and risk of material  
4 misstatement.

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

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

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

20           Some commenters recommended clarifying how  
21 proposed requirements would apply when an audit involves  
22 more than two tiers of other auditors.

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1           So, now we have covered the key areas of the  
2           comments related to the proposed amendments on planning  
3           and supervision. So, I want to move on to some of the other  
4           comments and specifically we are now going to cover the  
5           new proposed standard for divided responsibility audits.

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

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

20          The proposal includes a new separate auditing  
21          standard, as Dima mentioned earlier, AS 1206, specifically  
22          for these divided responsibility audits. Proposed AS

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1 1206 would maintain the requirement that the lead auditor  
2 disclose in its report which portion of the financial  
3 statements was audited by the other auditor or, in the  
4 terminology of the proposal, the referred to auditor.

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

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

18 According to some commenters, such situations  
19 exist today and may become more prevalent in the future  
20 because of broad use of IFRS and expected increased  
21 rotation of auditors involved in international audits. I  
22 will also note that both the SEC Staff's Financial

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1 Reporting Manual and ASB's AU-C Section 600 address these  
2 situations.

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

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

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

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

20 As for the proposed requirement for the EQR, some  
21 commenters supported the requirement as proposed, while  
22 some commenters question whether the determination of

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1       sufficiency is always a significant judgment and thus  
2       should always be reviewed by the engagement quality  
3       reviewer.

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

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

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

20              Notably, under the proposal, the other auditor  
21      would continue to remain responsible for, among other  
22      things, obtaining sufficient appropriate audit evidence

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1 to support its written report describing the other  
2 auditor's procedures, findings, conclusions and, if  
3 applicable, opinion. Some commenters said that not  
4 retaining a statement about the other auditor's  
5 accountability in AS 1205 would imply a free pass to other  
6 auditors regarding the quality and sufficiency of their  
7 work. The potential reduction in accountability of the  
8 other auditor, whether actual or perceived, may adversely  
9 affect audit quality. For example, because the other  
10 auditor could be in the best position to supervise the  
11 day-to-day responsibilities of a portion of the audit  
12 performed by other auditors.

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

16 Okay, so my final area of discussion is on certain  
17 aspects of economic analysis. Again, as Dima introduced  
18 earlier, we will discuss certain aspects of the analysis.  
19 As a reminder, the proposing release includes an economic  
20 analysis that described the baseline for evaluating the  
21 economic impacts of the proposal, analyze the need for the  
22 proposal, and discuss potential economic impacts of the

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1 proposed requirements, including the potential benefits,  
2 costs, and unintended consequences. The analysis also  
3 discussed alternatives considered.

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

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

18 With respect to the description of economic impacts  
19 in the proposing release, including benefits and costs,  
20 some commenters provided information in support of the  
21 description of potential benefits. One commenter stated  
22 that the proposed amendments would provide more

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1 transparency about audits involving other auditors and  
2 would, therefore, benefit investors and the public.

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

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

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

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

22 MR. ANDRIYENKO: Okay, thank you very much Denise

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1 and Stephanie for your presentation. As you can  
2 appreciate, the proposal is covering a lot of ground. It  
3 touches on several key audit areas and would amend many  
4 of the existing key auditing standards.

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

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

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

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1 and 40 percent men.

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

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

15 Liz Murrall.

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

20 Investors invest internationally and their  
21 preference would be for harmonized requirements to apply  
22 internationally for audit. But I note that whereas the

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1 PCAOB is allowing divided responsibility and a reference  
2 to be made to that in the audit report, the same is not  
3 allowed by the IAASB in ISA 600. And, indeed, even in the  
4 U.K. where we have ISA 600-plus, we go on to say the group  
5 engagement partner's firm bears the full responsibility  
6 for the auditor's report on the group financial  
7 statements.

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

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

17 And I think maybe Megan can comment on this. I have  
18 heard, as I have sat at the IAASB CAG, as they have thought  
19 about ISA 600, the group audits, that there are situations  
20 where the lead auditor just doesn't have access to the  
21 audit work of an equity investment or something like that,  
22 which is part of the financial statements.

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1           So, should the lead auditor still sign the opinion  
2 of the consolidated financial statements, even though he  
3 or she cannot potentially audit 100 percent of the work,  
4 or should the divided responsibility exist, or should  
5 there be some other solution? So, I think it is something  
6 we are exploring as part of the proposal and I'm not sure  
7 where we will come out on this at the end of the day. But  
8 there are relatively few situations today.

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

11           MS. ZIETSMAN: Yes, Marty, thanks. And it  
12 definitely is something that is on the IAASB's list of  
13 issues. I think, as you know, we have an ongoing project  
14 to look at our group audit standard and we did a very  
15 significant consultation where we put out all of those  
16 issues, which included some questions around the issue of  
17 divided responsibility. I mean Liz is right, that [ISA]  
18 600 today does not provide for the ability to divide  
19 responsibility or make reference to the report of another  
20 auditor in the report.

21           But what we heard -- actually, I will just take a  
22 step back. When the IAASB started its project, their

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1 intent was not to open up that debate because that had been  
2 a very hotly debated issue when ISA 600 was first finalized  
3 and I think actually was the issue that contributed to that  
4 standard having to be re-proposed a couple of times before  
5 it actually got finalized.

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

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

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1 kind of access that you might when it is a component.

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

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

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

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

19 MS. ZIETSMAN: Yes, the only other thing I really  
20 just wanted to point out was as I think I just mentioned,  
21 we do have a project that is ongoing with respect to [ISA]  
22 600. Obviously, ISA 600 is a different standard than what

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1 is in the PCAOB standards. It is a standard that has a  
2 lot of issues, which is what has led the IAASB to put it  
3 back on its agenda. But I think the one thing that we did  
4 hear in the response to our feedback, and I think actually  
5 it was mentioned in the presentation the fact that firms  
6 have both methodologies around [ISA] 600 and there was a  
7 recognition, I think broadly across our stakeholders, that  
8 [ISA] 600 has been an important standard in improving the  
9 quality of the multi-location audits. So it has been  
10 helpful.

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

14 But at the same time, the other project that is  
15 relevant is we have a project that is focused on ISA 220,  
16 which is our standard that deals with quality control at  
17 the engagement level. And really what we are trying to  
18 do with that one is to take the kind of principles of  
19 quality management and drive that into that standard and  
20 I think, actually, the work that the PCAOB has done in  
21 respect to the way you have looked at this issue has been  
22 very helpful to us in terms of looking at well, how do you

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1 build a model that really drives the level of involvement  
2 that is necessary in looking at the supervision model and  
3 thinking about how it might work in different  
4 circumstances.

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

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

19 So, I think between our two standards there -- well,  
20 I think we are dealing with the same issues. So I think  
21 the feedback that you have received is very informative  
22 to us and, likewise, I think the feedback on our ATC is

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1 very informative too to the two projects. So, I think  
2 there is a lot of scope for us to think about how to solve  
3 these issues together. Thank you.

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

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

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

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

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

21 And as I said, so far, everything I have said really  
22 so far is obvious but these are my suggestions. In

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1 consideration of these observations, I would like to  
2 suggest that the PCAOB consider an approach to rulemaking  
3 that keeps its options open. For example, where the  
4 comments you summarized suggest that rules are burdensome,  
5 to give the commenters, initially, the benefit of the doubt  
6 until post-implementation review and new experience from  
7 inspections and enforcement provide information as to how  
8 any new rules are working.

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

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

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

22 MR. SELLING: You don't have to make notes, I have

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1 it written down word for word.

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

4 Mike Santay.

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

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

18 And secondly, again thanks for doing the project.  
19 I think Megan said a lot of what I was thinking about here.  
20 You know, setting standards for the private companies in  
21 the U.S., we look to converge with the IASSB. We did, the  
22 Board did a significant convergence project a few years'

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1 back. So, our main focus is that. But we also are looking  
2 to minimize differences with the PCAOB. We have an active  
3 group of the Board that looks at PCAOB standards-setting,  
4 monitors it, and where standards are finalized that we  
5 believe would be a good enhancement for private company  
6 audits, we make those changes. So, we are trying to  
7 balance both. So, I think it is important.

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

17 So, I am grateful that there is going to be  
18 continued informing between the two projects because I  
19 think, especially from a U.S. perspective, with our  
20 experience with divided responsibility and other things,  
21 I think there are some good things in both projects. And  
22 sometimes I think you mentioned the issues, the [ISA] 600

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1 standard as it is now, it is a bit of a forest and the trees.  
2 And many of the issues have been more about how do I comply  
3 with the standard, as opposed to how do I do a good quality  
4 audit. I know it is an inspection focus of Helen and her  
5 group. So, I think that will also probably help inform  
6 your project as you go along.

7 But anyway, that is my observation.

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

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

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

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1 standard-setting related to how they should relate, how  
2 they should react to the principal auditor.

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

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

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

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

21 I'm just trying to think. Challenges around risk  
22 assessment and really making sure that risks at the group

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1 level are driven down to the component and how you make  
2 sure, as a group engagement partner, that they have been  
3 appropriately responded to.

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

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

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

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1 those kinds of situations.

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

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

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

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

18