The Advisory Group met in the Academy Hall within the offices of FHI 360, located at 1825 Connecticut Avenue, Northwest, Washington, D.C., at 8:30 a.m., James R. Doty, Chairman, presiding.

PCAOB BOARD OF DIRECTORS

JAMES R. DOTY, Chairman
LEWIS H. FERGUSON, Board Member
JEANETTE M. FRANZEL, Board Member
JAY D. HANSON, Board Member
STEVEN B. HARRIS, Board Member
STANDING ADVISORY GROUP

MARTIN F. BAUMANN, PCAOB, Chief Auditor and Director of Professional Standards

JOAN C. AMBLE, President, JCA Consulting, LLC

THE HONORABLE RICHARD C. BREEDEN, Chairman and CEO, Breeden Capital Management, LLC

PETER C. CLAPMAN, Senior Advisor, CamberView Partners, LLC

WALTON T. CONN, JR., US Partner and Global Head of Audit Methodology and Implementation, KPMG LLP

WALLACE R. COONEY, Vice President - Finance and Chief Accounting Officer, Graham Holdings Company

JAMES D. COX, Brainerd Currie Professor of Law, School of Law, Duke University

CHARLES M. ELSON, Edgar S. Wollard, Jr. Chair of Corporate Governance, and Director, John L. Weinberg Center for Corporate Governance, University of Delaware

MICHAEL J. GALLAGHER, Managing Partner, Assurance Quality, PricewaterhouseCoopers LLP

SYDNEY K. GARMONG, Partner in Charge, Regulatory Competency Center, Crowe Horwath LLP

L. JANE HAMBLEN, Chief Legal Counsel, State of Wisconsin Investment Board

ROBERT B. HIRTH, JR., Chairman, Committee of Sponsoring Organizations of the Treadway Commission (COSO)

PHILIP R. JOHNSON, Former Nonexecutive Director, Yorkshire Building Society

JOYCE JOSEPH, Principal, Capital Accounting Advisory and Research, LLC

JEAN M. JOY, Director of Professional Practice and Director of Financial Institutions Practice, Wolf & Company, P.C.

GUY R. JUBB, 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, and Managing Partner, Sinclair Capital, LLC
DOUGLAS L. MAINE, Limited Partner and Senior Advisor, Brown Brothers Harriman & Co.
MAUREEN F. McNICHOLS, Marriner S. Eccles Professor of Public and Private Management and Professor of Accounting, Stanford University
ELIZABETH F. MOONEY, Vice President, The Capital Group Companies, Inc.
RICHARD H. MURRAY, Chief Executive Officer, Liability Dynamics Consulting, LLC
JEREMY E. PERLER, Partner and Director of Research, Schilit Forensics
SANDRA J. PETERS, Head of Financial Reporting Policy, CFA Institute
WILLIAM T. PLATT, Managing Partner, Professional Practice, and Chief Quality Officer, Attest, Deloitte & Touche LLP
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
RICHARD W. ROEDEL, Public company board member
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
JEFFREY L. TATE, Chief Audit Executive, The Dow Chemical Company
BRIAN D. THELEN, Independent consultant
SIR DAVID P. TWEEDIE, Chairman, International Valuation Standards Council
JOHN W. WHITE, Partner, Corporate Department, Cravath, Swaine & Moore, LLP

OBSERVERS

GINNY BARKER, Department of Labor
BRIAN CROTEAU, Securities and Exchange Commission
BOB DACEY, Government Accountability Office
HARRISON GREENE, Federal Deposit Insurance Corporation
MIKE SANTAY, Grant Thornton
LARRY SMITH, Financial Accounting Standards Board
MEGAN ZIETSMAN, International Accounting and Assurance Standards Board

PCAOB STAFF

LILLIAN CEYNOWA, Associate Chief Auditor
GREG FLETCHER, Associate Chief Auditor
CHRIS GJETNES, Associate Chief Auditor
JANE HUTCHENS, Office of Research and Analysis
GREGORY JONAS, Director, Office of Research and Analysis
HUNTER JONES, Chief Counsel, Office of the Chief Auditor
STEPHEN KROLL, Senior Advisor, Office of Research
GREG SCATES, Deputy Chief Auditor
EUGENE THERON, Associate Director
JOY THURGOOD, Associate Chief Auditor
BARBARA VANICH, Associate Chief Auditor
JESSICA WATTS, Associate Chief Auditor
GEORGE WILFERT, Deputy Director and Senior Technical Advisor, Office of Research and Analysis
KEITH WILSON, Deputy Chief Auditor
MR. BAUMANN: Well, thank you very much. I want to thank the Panel for your willingness, again, to take on the task of identifying critical emerging issues that could affect audits and the PCAOB. You did an outstanding job in doing that. You triggered great breakout sessions and I really appreciate what you've done. And the SAG members for their participation in the breakouts. So, we learned a lot and we have a lot of follow-ups on our end to consider as a result of that.

Let me turn to the final item on our agenda. And that's a discussion of the use of specialists. Just by way of background, what we've been doing over the past several meetings, and including the Staff Consultation Paper, is trying to put a lot of transparency around the development or the possible development of standards with respect to auditing estimates and fair value measures and then the use of specialists and auditors.

We issued a Staff Consultation Paper, got a lot of comments back, and then we've used the SAG meetings to discuss those Consultation Papers and to get your views on those issues and the need for standard-setting. And
as I responded to a question from Joan yesterday, do we think we have that information? I said, I think at this point in time, we've got a lot of good information about the need for standard-setting and potential standard-setting approaches in these areas, so we can march forward reasonably expeditiously.

So, again, it's to keep this Standing Advisory Group advised of where we're going along the way with a transparent approach to standard-setting in this area. And we'll continue to do that. And so today is to discuss, what are the themes that we heard back about that Staff Consultation Paper on specialists? And then we'll continue the dialogue going as we advance this project.

Greg Scates?

MR. SCATES: All right. Thanks, Marty. What I'd like to do first is, as Marty mentioned yesterday in the standard-setting update session yesterday afternoon, the Paper was issued, Staff Consultation Paper, back in May. We've also had the, as you'll recall, the SAG discussion, we had several panels. The panelists consisted of specialists, the firms, SAG members, and others, and also academics. And we had a good discussion in June and we
also had a discussion at the IAG meeting. So we've had a lot of input to the Paper and a number of commenters.

The agenda today, I just want to go over briefly background and get your input on two items. One is with respect to the auditor's specialist and the other one with respect to the company's specialist. As background though, as I said, we did get a number of commenters that weighed in on the Staff Consultation Paper. We had 44 comment letters came in, as you can tell from the list there. To no surprise, a number of the firms as well as a number of specialists gave their views on the Paper itself and they were very valuable to us as we move forward on this project.

As far as the key themes, one of the items we wanted to focus on, we focused on this early on in the Paper, it was the need for the project. And we articulated that on the first couple of pages of the Staff Consultation Paper. And the commenters came in and said, as you can tell from the pie chart there, there were a number of commenters that said, yes, you need to do this project, this is a viable project to go forward.

But also, in addition to that, as Marty mentioned
yesterday, they said, yes, this project is important, but you need to align this with the fair value estimates project. And so that's what we've done. We've discussed this with the Board to align these two projects so that when we have deliverables to go out to the public, and we anticipate those will go out in 2016, they will go out on the same date.

The next few slides are talking about using the work of an auditor's specialist. The commenters generally supported aligning the requirements with the existing standard, the ISA standard, ISA 620. And commenters were generally supportive of that. Others said, you could also make amendments to 336. You could accomplish it either way. And so, we think it's the direction we would like to go and we want to get your views on that in just a few minutes about aligning it with the 620 of the ISA.

Also, we had a specific question there about should the supervision requirements under AS 10, should they be extended to the auditor's engaged specialist? And there was actually only one commenter that actually voiced that opinion and said that it should be extended. So most
commenters, obviously, were opposed to that. They were opposed to extending the supervision requirements under AS 10 to an engaged specialist.

On the next item, we had another discussion in the Consultation Paper with respect to the independence versus objectivity. As you know, the employed specialist, the specialists employed by the firms are required to be independent, required to comply with all independence requirements of the SEC as well as the PCAOB. But the engaged specialists are not.

And so we entertained that question in the Paper itself, should engaged specialists similarly be required to be independent or should they continue to be subject to the existing or more rigid objectivity requirement? And very few people actually supported the independence requirements. There were like four commenters who weighed in saying that you should at least consider the independence requirements with respect to the engaged specialists.

Twenty-one of them that weighed in, 21 of the commenters said, no, they should not be subject to those requirements, but you should, obviously, consider more
rigid objectivity requirements. So that's the direction
we're considering going is to consider more rigid
objectivity requirements for the engaged specialists.

MR. BAUMANN: I think I would note that we didn't
hear from a lot of investors in the Consultation Paper.

MR. SCATES: Right.

MR. BAUMANN: So the comment there is few supported,
but it did include an investor. And in the commentary,
the accounting firms were primarily the respondents in
this who had the view that the engaged specialists should
not be subject to independence, but they should be subject,
I think, to enhanced objectivity requirements.

MR. SCATES: Right.

MR. BAUMANN: Is that fair?

MR. SCATES: Yes. Brian Croteau?

MR. CROTEAU: I was just going to ask if maybe you
wanted to give some color as to, since the number isn't
always important in terms of who supports or not, kind of
more of the substance of why people did or didn't support?
Hopefully to give a better discussion here this morning.

MR. SCATES: Well, as far as the -- let me lay it
out in a little more detail. The four commenters that
supported applying the independence requirements, as Marty mentioned though, it really consists of the one investor that weighed in on the Consultation Paper, one regulator, one academic, and one specialist. So you can see clearly that the firms didn't weigh in on that at all. Of course, their view was towards the second bullet with respect to the enhanced objectivity requirements. And I mentioned the 21 commenters that weighed in on that, it was, I'll give you more detail there, it was 12 accounting firms, six associations of accountants, two regulators, and one specialist firm that weighed in on that one.

MR. BAUMANN: I think getting to the question a little bit was, and maybe you can comment on this, is those who commented and said enhanced objectivity is the preferred way to go was because the independence rules were written for auditors and large organizations that are not auditors are not familiar with the independence rules. And trying to determine that they have complied with the independence rules would create quite a burden on the auditors to see that they did.

And what the monitoring procedures might be on that would be challenging as well, as auditors having
monitoring procedures with respect to independence, would we expect those other organizations to have monitoring procedures? And so a lot of questions were raised about the ability to do that and could we essentially get to a very similar point, I think, with enhanced objectivity requirements that dealt with similar concepts, but not quite as rigid application of monitoring? Would that be a fair assessment?

MR. SCATES: Yes.

MR. FLETCHER: Well, just to add a little more color to that. This is where we got most of our economic arguments, when it came to independence for an engaged specialist. I think a lot of the view of the people who commented was that this could actually tend to drive engaged specialists out of the audit support business because they would be unwilling to incur the cost of trying to develop systems to be able to track the independence of the various specialists that work with them.

MR. SCATES: There were more commenters that expressed that view of the unintended negative consequences that could happen and it could clearly take some of these specialists, some of those firms, out of the
market if we were to require them to put or if they would be required to put in some type of system to address the independence requirements.

And then the last item is the commenters did support certain modifications with respect to the requirements, and this is more in line with Paragraph 12 of ISA 620 about evaluating the knowledge and skill of the auditor's specialist, informing them of their responsibilities, and evaluating the work of the auditor's specialist. Those are the requirements that we want to focus on.

So, what I'd like to do is look at our first question with respect to the members of the SAG. And this first question, again, the background is Paragraph 12 of ISA 620 that says, the auditor should evaluate the adequacy of the auditor's expert, of course the IAASB uses expert, we of course use the word specialist, work for the auditor's purposes, including those three bullets, the relevance and reasonableness of the findings, the specialist or expert's work involves use of significant assumptions and methods, and then as well as evaluating the expert's work, the source of data, and the relevance,
completeness, and accuracy of that data.

So that is taken right out of Paragraph 12 of ISA 620, and we'd like your views on the appropriateness of using similar requirements as a basis for a potential PCAOB standard on using the work of an auditor's specialist. So should we consider similar requirements as a foundation or basis for a standard on using the work of an auditor's specialist?

MR. BAUMANN: Comments? Guy Jubb?

MEMBER JUBB: All right. Speaking as an investor and mindful you didn't get many investor responses to the Consultation, I would certainly be supportive of that providing that minimum foundation. I think an investor would expect nothing less than that the auditor would apply that type of evaluation to determine that adequacy. And if it didn't do, it would be regarded as a significant matter, as far as by implication, the financial matter being reported is a material one.

If I could maybe just ask a supplementary question though to build on that, has there been any discussion or views regarding, in the same way that the partners rotate from time to time, whether experts should also be subject
to similar type of rotational matters, bearing in mind that 
sometimes experts will be defensive of previous views 
expressed and a fresh pair of eyes can bring some challenge 
to previously held assumptions?

MR. SCATES: Well, that's certainly an interesting 
point for us to consider. We had not presented that in 
the Paper itself, but you do raise some good points because 
they will want to -- the natural inclination of anyone to 
protect their work product going forward. And so if 
they're challenged in a subsequent period, then if they're 
still the same specialist, then there's not much of a 
challenge there to the previous work, you're right. So 
there's something we should at least consider. And we can 
consider that also when we're developing the text around 
the enhanced or more rigid objectivity requirements. 
Certainly we should consider something like that, or at 
least have that in mind as we work through that process.

MR. BAUMANN: I think that's a good point, the 
element of objectivity is how objective are you when you're 
looking at similar information and getting similar views 
the same year, year after year? But that didn't really 
come up in the comments otherwise. David Kane?
MEMBER KANE: Yes. Greg, we generally thought that 620.12 would be appropriate for the Staff to consider in developing a new standard. It retains the basic elements of what's in 336 and expands upon them, I think, in some good ways. Couple other observations though is to also, while you're looking at 620, maybe pick up 620.08, which talks about the need for the auditor to consider aligning the procedures with the Risk Assessment Standards. So ultimately, the auditor will make a determination of the nature, timing, extent of the procedures based upon his or her risk assessment.

And I think the other point, won't spend too much time on it, but that you mentioned earlier, is that ultimately whatever comes out of this project to make sure it doesn't discourage the use of specialists. Because no matter how hard an auditor might try, we just will not have the specialty get in there and perform the procedures that a specialist would, and just take oil and gas for example, along the lines we talked about at the last SAG meeting. So just to make sure it just supports that overall principle and objective.

MR. SCATES: Thanks, David. Because we certainly
want to encourage the firms to use the work of specialist. And as we know today, and as it's documented in our Consultation Paper, there are more instances now than ever where specialists are needed. And so we certainly want our standards to encourage the use and certainly not discourage. And we certainly appreciate your comments on that point.

MR. FLETCHER: And just on the question of the risk-based standards. Again, that wasn't really a question we asked, but we got a lot of commentary about that and the commentators all believed that we should make sure that whatever we do aligns with the Risk Assessment Standards and is risk-based.

MR. BAUMANN: Tom Selling -- Selleck, I'm sorry.

(Laughter.)

MEMBER SELLING: I am really sorry I made that joke.

(Laughter.)

MEMBER SELLING: I agree with Guy's views about investors' expectations. But with all due respect, I don't think they go far enough. Investors have a right to expect the same level of skepticism from auditors that they apply to management representations, unless the
information comes from other independent sources. And I don't understand why that, that principle is not upheld. I understand that we want to encourage the use of experts for many of these complex matters, but I still really think that we have to hold to the time honored principle of independence when determining the degree to which an auditor may examine the information and rely on it.

MR. BAUMANN: Thanks, Tom. Megan Zietsman?

MS. ZIETSMAN: Thanks, Marty. I just really wanted to point out that there is some stuff in ISA 620 that supports Paragraph 12. So Paragraph 12 is the requirement, but there's also about seven or eight paragraphs of application guidance, which give a lot more context to those requirements. So, certainly would, I think, be things to look at. And one of the questions might be whether you would want to actually embellish the requirements by having some of that application guidance be more specifically incorporated. Which is something, I think, that the IAASB is starting to think about.

And the other point, and I think it goes to David's point about not discouraging the use of specialists, one of the things that the IAASB is specifically looking at
in the context of its estimates project is, should there be something more to really steer the use of or the involvement of experts for particular types of experts? So, as they commence with that project -- and I think that just points to why the two projects are connected. So I just really wanted to point out those two things. Thanks.

MR. BAUMANN: I think the team just picked a key paragraph here for -- rather than putting every thought we had about using the ISAs into this discussion today given the limited time. But I think all those points are well taken to consider the application material and 612.08 and other things, I think the team is doing that. But your other point you made about the IAASB is considering whether to -- was that to elevate certain of the application material on the use of specialists? Did I understand that or not?

MS. ZIETSMAN: Yes. Maybe, I don't want to prejudge where we're going, but really just to signal that we are starting in the context of a number of the projects that are on the work plan which deal with 540, as well as responsibilities of the engagement team and having the right level of people involved. I think it's going to call
into question some of those questions. So we don't specifically have a project to amend 620, I don't want to set anyone off to think that we're doing something like that.

But, I think, in the context of looking at the projects around quality control, quality control at the engagement level, as well as 540, some of those questions, I think, are going to arise. I really just wanted to make sure that I pointed to the application guidance and I have no doubt that the team is very carefully looking at all of that. It was just as a kind of a recommendation or a potential thought of something that could be valuable.

MR. BAUMANN: Good. Thanks for that clarification and help. Sydney Garmong?

MEMBER GARMONG: Yes. And, Marty, I appreciate your comments about how this was just a starting point, but the other thing too that I was struck by is this says, evaluate the adequacy, and then it talks about methods, which presumably are models, and I just wondered if there was a contemplation on providing some more clarity and guidance on what that means. And just as I think about like an actuary and whether auditors are really in a
position to evaluate a model. Just wanted to offer that.

MR. BAUMANN: Do you have any further views as to how it should be written instead?

MEMBER GARMONG: I don't, I just know that we can evaluate significant assumptions, but when it comes to modeling, I'm not so sure.

MR. BAUMANN: Thank you. Joan Amble? And, Guy, is your card still up or is that from before? Okay. Joan and then Guy.

MEMBER AMBLE: Okay, thank you. One thing I would ask you to think about including is when you talk about the how of how they evaluate third party specialists is to have in their toolkit kind of the consideration from a risk perspective of the independence and reliability of the information by giving some consideration to who does the hiring of the expert. So, for example, if the issue is in a model on credit or some other evaluation issue, you may want to have the Chief Accounting Officer as opposed to the Credit Officer hire that person. Or you may want to have them engaged in the process. So, I guess, who kind of controls that process is something to consider. I don't think it's determinative in all cases to be one
way or another, but a factor to be taken into kind of your
toolkit of risk assessing the information.

MR. BAUMANN: Great. Thank you, Joan. And Guy
Jubb?

MEMBER JUBB: Just to follow through on Tom's
intervention. For clarification, I fully support the
view expressed as an investor around that degree of
skepticism, appropriate skepticism, being brought to
bear. My own comments were regarding this is the
foundation from which to build, but I wanted to give
explicit support to that notion of skepticism applying.

MR. BAUMANN: Support noted, thank you. We move on
then?

MR. SCATES: All right. Let's move to the next
discussion with respect to the company specialist.
Again, the commenters, a number of them, 11 commenters
actually supported aligning our requirements with similar
requirements in the ISA 500, Audit Evidence Standard. If
not there, they said, well, you could also amend 336 and
strengthen the procedures in 336 for evaluating that work
of the company specialist. And there were nine commenters
that weighed in on that. So you've got then a total of
20 commenters weighing in saying, change is applicable, change should be made here, strengthen the requirements. And that's what we plan to do going forward.

So, what we've done here is we looked at, okay, we looked at the existing standard that the ISA has, ISA 500 on audit evidence, and we looked at, similar to what we do with the auditor's specialist, we're doing with the company specialist for going forward is, we looked at Paragraph 8 and the requirement is that in order for the auditor to evaluate the audit evidence provided by the company specialist, Paragraph 8 requires the auditor to evaluate the competence, capabilities, and objectivity of that expert, obtain understanding of that work of that expert, and then evaluate the appropriateness of that expert's work as audit evidence with respect to the particular assertion. So the question, similar to auditor's specialist, now with the company specialist, what are your views on the appropriateness of using similar requirements as a basis for a potential PCAOB standard on using the work of a company's specialist?

MR. BAUMANN: Phil Santarelli?

MEMBER SANTARELLI: Greg, I would generally agree
with using 500.08. I think there's an additional factor here when employing or when relying on the evidence produced by the company specialist, a risk factor is management's internal control for financial reporting over the measurements that, that specialist provides to them. Management could fall into the same trap that some auditors might by taking a specialist's reports, sticking it in the work paper so to speak, and making the mark. So I think that auditors need to consider ICFR over management's use of the specialist and then calibrate accordingly their procedures with respect to the reliability of that evidence.

MR. BAUMANN: I think that's really valuable advice and we'll make sure we take that to heart. Bob's card is going up and when we talk about ICFR, Bob usually pops in. So why don't I turn it directly to you, Bob?

MEMBER HIRTH: I'm going to not talk about that, but, Greg, I think the idea of using both of the other standards is good and in looking at, does that content make sense? What I noted when I looked at those, they've both been in effect for some time. So I'd encourage you to look at, not just what do they say, but how have they gone and
do people actually believe that what is written in those
two standards that you might follow has been effective or
what pitfalls have they found in the standard? So I think
it's a great idea and we've got the opportunity to do a
look-back as to how has it really gone.

MR. BAUMANN: We do have that benefit, Bob, and
that's an excellent point. We have the benefit to do that
and with our collaboration with the IAASB, I know they do
a review and have been doing a review of the clarified ISAs
and have identified some where they are going back and
taking a look at the standards themselves and potential
refresh of them, maybe. I think the good news here is I
don't think they've identified these standards at this
point as something where you think you need to do some
additional work. Is that fair, Megan?

MS. ZIETSMAN: Yes. And I think that is fair and
that they're not specifically on the work plan. But like
I just mentioned, I think that it's hard, but given that
we are currently going to be doing something around 540,
which is estimates, I think it's hard to keep that from
moving into questions around involvement of specialists.
And then specifically also the use of specialists by
management. But I think there is some information in the 2013 ISA post-implementation monitoring study, which obviously would be informative. But I think that's a good point.

MR. BAUMANN: Well, as our project of specialists is coordinated with fair values, I certainly understand your point that, in your looking at 540 again, specialists could crop up in that regard. Yes, Bob?

MEMBER HIRTH: I didn't want to be flippant, sorry, on the ICFR comment and Phil's comment, which I agree with. So I think I was thinking about that this morning, that I guess depending on the significance of the specialist or specialists that are used, if there are a lot of them that are used, there actually might be a process and a procurement process and evaluation process. So I think the ICFR implications of this will vary by company, but it is a good thing to kind of walk through mentally to see if there is enough there to create internal control processes around specialists.

MR. BAUMANN: Thank you. Tom Selling?

MEMBER SELLING: In principle, my comment about independence still stands. But if it doesn't, then I
think that the Board needs to make a distinction between types of experts. I think one type of expert can generally be seen as one who is an expert in markets. And then there is someone who's an expert in estimates that in my view are somewhat ineffable. For example, if you were measuring the market value of your exposure to Portuguese loan losses, that would be one thing. But if you're trying to measure the allowance for loan loss in accordance with GAAP, that's very different.

And I think in the latter case, I don't think the standards should view management's expert as any different from management itself. In the former case, I might be able to see some acknowledgment of an expertise when there is actual market data as a reference point. But there are many, many estimates for which people are supposedly experts, but I think it's a bigger stretch to rely on that type of estimate.

MR. BAUMANN: We had teed up the question about when using the work of a specialist and a specialist of course is doing work in an area, who is an expert outside of accounting and auditing, whether or not their work should be evaluated as if it was prepared by management with the
same degree of rigor? Or given the nature of the fact that it's work outside of the expertise of the auditor, to have separate standards like 500.08? And we didn't get back a lot of support in our comments for, test that as if it was performed by management. If that's your point here?

MEMBER SELLING: I'm afraid it is my point.

MR. BAUMANN: Yes, that's what I thought. All right. So it's been out, we've been soliciting views on that and we have a number of comments pro and con on that approach. Rick Murray?

MEMBER MURRAY: Greg, at our June meeting, Loretta Cangialosi made the opening panel presentation on behalf of issuers. I think her point was pretty clearly, hey guys, the numbers are ours and the responsibility for getting them right is ours. There is an audit role, but don't let it become part of our numbers developing process or get in the way of them.

Why would that not suggest that the three provisions of ISA 500 that you note would be expressed as having the auditor evaluate the company's attention to those three issues as opposed to reaching through the company and out into company source data for separate
evaluation? And what happens if the auditor comes to a
different view than the company does in an area where minds
could differ?

MR. BAUMANN: What was the last question, that what
would happen if what, Rick?

MEMBER MURRAY: What happens if the auditor takes
a different view -- if the auditor is required to reach
back through the company to the source material and make
its own determination and what happens if the auditor has
a different conclusion than the company did within the
boundaries of reasonable minds can differ?

MR. BAUMANN: Well, I think, just one response is,
I think the auditor has a responsibility to do an
independent evaluation of the management conclusions and
if it's necessary to reach beyond what management did and
to look at the work of the specialist, then I think that's
a necessary aspect of an independent audit. So I think
that's the way we're approaching this.

So I think we're not approaching it, at least in
this suggestion, to test certain information with the same
rigor as if it was prepared by management, but saying that
if this is important work in terms of management reaching
their conclusion and recording their accounting estimate, then the auditor has certain obligations to evaluate the work of management's specialist, consistent, I think, with the way ISA 500.08 has been doing it.

MEMBER MURRAY: I understand that's the basis of this approach. What I'm questioning is, is it necessary or is it an excessive application of the scope of audit regulation in the area that is basically issuer responsibility rather than auditor responsibility?

MR. BAUMANN: Okay. Thank you for that comment, we'll take it into consideration. Phil?

MEMBER SANTARELLI: Yes. I just wanted to follow up on Rick's comment. Actually, when I think about management's ICFR over specialist measurement, I really think that part of it is, this is what they need to be doing. So before they hire a specialist, they need to be thinking about and evaluating the competencies, understanding what that expert or specialist is trying to do, and then themselves evaluate the appropriateness of what the conclusions were of the specialist.

So from an auditor's perspective, if you, and it's a scale, so if you come into a situation where management
has done a very good job with that and we're comfortable
with the underlying source data that was used by the
specialist, that indicates a certain level of work that
we would have to do with respect to that report. If, on
the other hand, management has not done a good job of that,
has not evaluated, has really, as I said, basically taking
a specialist measurement and recorded it and paid their
bill, then the level of work that the auditor would have
to do scales up. And I think that's this risk assessment,
control risk assessment that enters into it. As well as,
of course, the inherent risk in the measurement, but the
control risk, I think, factors into the level of effort
that the auditor has to put in.

MR. BAUMANN: Thanks for that point. And, Rick, is
your card back up on this? And thanks for your comments
too, Rick.

MR. SCATES: I had one last question, we have just
a few minutes. With respect to the company's specialist,
there's something I want to, kind of with what Guy was
saying and you were saying about rotation, I want to look
at the -- the company specialist, they're either employed
or engaged, okay. But what -- in order for us to draft
this standard, we're going to draft it and align it with our Risk Assessment Standards. In order to do that then, we're going to take a careful look, as we've been talking about, objectivity and objectivity with respect to the specialist.

But in doing that, and again aligning with our Risk Assessment Standards, I'd like your views on the company's employed specialist, their objectivity, versus the objectivity of someone who's engaged from outside. Obviously, the person inside is not going to get rotated, the person outside could get rotated. I'm just tagging on to what, Guy, you were saying about rotation. I know that was with respect to auditor's specialists, but you could take that also with respect to company specialists.

But should we, in drafting this standard, should we take that into consideration that an engaged specialist is more likely to be more objective than someone who is employed by the company and who is going to, as I said earlier, they would have a natural tendency to protect their work product going forward?

MR. BAUMANN: Mike Gallagher?

MEMBER GALLAGHER: Thanks, Marty. Thanks, Greg.
I think there is a difference. I think it would be hard, even though if they're employed, they're experts and they may have some certification or credentialing, it's hard to say that the information provided by them is not information provided by management, because they are. I do think it's different if somebody's engaged versus employed, inherently, and you have to look facts and circumstances.

For example, if somebody's engaged and it's their only client, well, that's not very different than being employed. But if the company on which they're serving as a client is one of 20,000 clients, they're likely not going to put their credentialing and reputation and everything else on the line to get to an answer that management would like. They're going to be, I think, inherently are more likely to be more independent.

MR. BAUMANN: I think that's a very good point and essentially you're saying, evaluating objectivity as a scale and the employed specialist is probably on a -- management's employed specialist is pretty low level on that scale, the specialist that maybe has one or two captive clients is not further away on that scale, but
maybe up a little bit, and then that large company that
has 5,000 clients and they're just, none of them are
particular so important to that large company, that
they're pretty objective at that scale. So they're on a
scale and that risk-based assessment affects your view of
objectivity and, therefore, the amount of work. Kind of
your perspective?

MEMBER GALLAGHER: Yes.

MR. BAUMANN: Great. David Kane?

MEMBER KANE: Yes, just one other quick point on
that, Marty. Because there is some language in ISA 500,
I think on A42, talking about the scale that Mike is
discussing here and then the factors that we should be
thinking about in terms of employed versus engaged. So
I would encourage you to pick that up.

MR. BAUMANN: All right. Well, thank you very much
for that discussion, Greg. Thanks for leading that.

(...)