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**OFFICE OF THE CHIEF AUDITOR**

**STANDARD-SETTING AGENDA**

**SEPTEMBER 2011**

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As part of developing and periodically updating the standard-setting agenda, the Office of the Chief Auditor ("OCA") takes into consideration multiple factors. The agenda is determined based on Board priorities, results of the PCAOB's oversight of registered public accounting firms, monitoring of the environment, consultation with the Board's Standing Advisory Group ("SAG"), input from the Board's Investor Advisory Group ("IAG"), and discussion with the SEC, among other factors.

OCA continually evaluates the Board's standards and takes a priority-based approach in determining which standards need to be amended. In addition, the current standard-setting agenda has been significantly informed by the economic downturn and the disruption in the credit and financial markets. OCA has also taken into account the results of the Board's oversight activities of registered public accounting firms. For example, issues identified through the inspection of audits conducted during the economic crisis indicate that there is a need for the Board to address certain of its standards including the auditor's reporting model, quality control, fair value measurements, and the use of specialists. Additionally, the standard-setting projects on quality control, part of the audit performed by other auditors, and identification of other public accounting firms or persons not employed by the auditor in the auditor's report will consider challenges pertaining to PCAOB inspections of accounting firms based outside the U.S.

OCA works with the Division of Registration and Inspections to monitor current accounting firm practices with respect to independence, including non-audit services being provided to audit clients, to determine if any additional rulemaking is necessary in the area of ethics and independence.

In its standard-setting activities, OCA focuses on ways to strengthen the applicable auditing standards as they relate to the auditor's responsibility to detect material misstatement due to fraud.

OCA takes into consideration the work of other standard setters (e.g., FASB, IAASB), emerging issues, research, and solicitation of public comments. For example, OCA is closely monitoring the work of the FASB and IASB accounting projects and evaluating the potential need for new or revised auditing standards or staff guidance in response to the potential upcoming changes to U.S. GAAP and IFRS.

In addition to standard-setting projects, OCA issues staff audit practice alerts to highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws.

The Board's standard-setting process is further described on the PCAOB's website at: <http://pcaobus.org/Standards/Pages/StandardSettingProcess.aspx>. The table below, followed by a brief project overview, presents OCA's current standard-setting agenda and key milestones.

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
1. Auditor's Reporting Model	Hold roundtable		Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		
2. Auditor Independence, Objectivity, and Professional Skepticism	Issue concept release for public comment		Hold roundtable	Board to consider next steps				

**NOTE REGARDING PROJECT MILESTONES:**

*The project milestones have been developed for planning and budgeting purposes and may change due to a variety of reasons. Specifically, the projected project milestones are contingent on the Board determining that the staff should pursue a standard-setting project in each area. If the Board decides to issue a concept release for public comment before proposing a standard, the Board will analyze the comments received and determine if it is appropriate to proceed with a proposed standard. Additionally, after the Board receives public comment on a proposed standard, the Board will determine whether to adopt a final standard or seek additional comment through re-proposal. Finally, emerging issues, new accounting developments, and any new legislative initiatives could impact the projected milestones or could result in other priorities not on the agenda.*

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
3. Audit Transparency – Identification of the Engagement Partner and Other Public Accounting Firms or Persons Not Employed by the Auditor in the Auditor's Report	Issue proposed amendments for public comment			Adopt final amendments or re-propose amendments for public comment				

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
4. Audits of Brokers and Dealers								
a. Attestation Standards			Adopt final standards or re-propose standards for public comment					
b. Audits of Supplemental Information			Adopt final standard or re-propose standard for public comment					
c. Staff Guidance for Auditors of Brokers and Dealers			Issue staff guidance					

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
5. Communications with Audit Committees		Adopt final standard or re-propose standard for public comment						
6. Part of the Audit Performed by Other Auditors (Principal Auditor)			Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		
7. Assignment and Documentation of Firm Supervisory Responsibilities (Failure to Supervise)		Issue proposed amendments for public comment			Adopt final amendments or re-propose amendments for public comment			

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
8. Quality Control Standards					Issue proposed standards for public comment			Adopt final standards or re-propose standards for public comment
9. Codification of PCAOB Standards	Staff recommendation to the Board on proposed approach							

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
10. Fair Value								
a. Fair Value Measurement of Financial Instruments			Issue proposed amendments for public comment			Adopt final amendments or re-propose amendments for public comment		
b. Fair Value Measurement and Other Accounting Estimates							Issue proposed standard for public comment	
11. Specialists			Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		



Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
12. Confirmation				Adopt final standard or re-propose standard for public comment				
13. Related Parties		Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment			
14. Going Concern	See discussion of item #14							

Project	2011		2012				2013	
	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
15. Subsequent Events					Issue proposed standard for public comment			Adopt final standards or re-propose standards for public comment
16. Attestation Reporting Under Regulation AB	See discussion of item #16							

## **Standards-setting Brief Project Overview**

1. Auditor's Reporting Model (Advisory Committee on the Auditing Profession to the U.S. Department of Treasury ("ACAP") Recommendation: Firm Structure and Finance Recommendation No. 5) – ACAP recommended that the PCAOB "undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model." This topic was discussed with the SAG and IAG. Outreach was conducted by the staff to ascertain and identify additional investor and user needs. The staff presented its findings to the Board at the open meeting on March 22, 2011. The Board issued a concept release for public comment on June 21, 2011 on alternatives for changing the auditor's reporting model that could increase its transparency and relevance to financial statement users. The comment period ends on September 30, 2011. The Board will hold a roundtable on this topic on September 15, 2011.
2. Auditor Independence, Objectivity, and Professional Skepticism – On August 16, 2011, the Board issued a concept release to solicit public comment on ways that auditor independence, objectivity, and professional skepticism can be enhanced, including through mandatory rotation of audit firms. Mandatory rotation would limit the number of consecutive years for which a registered public accounting firm could serve as the auditor of a public company. The comment period ends on December 14, 2011. The Board plans to hold a public roundtable to discuss auditor independence and mandatory audit firm rotation in March 2012.
3. Audit Transparency – Identification of the Engagement Partner and Other Public Accounting Firms or Persons Not Employed by the Auditor in the Auditor's Report – In response to comments received from members of the SAG and input from the IAG, the staff is drafting for the Board's consideration proposed amendments to the auditing standards to provide transparency in the audit report about the identification of (1) the engagement partner and (2) other firms and persons who participate in the audit. The project also is informed by comments received on the Board's July 28, 2009 concept release on engagement partner signature.
4. Audits of Brokers and Dealers – On July 12, the Board proposed attestation standards for auditors of brokers and dealers in light of amendments to Rule 17a-5 under the Securities Exchange Act of 1934 proposed by the SEC. The Board also proposed a standard for audits of supplemental information accompanying audited financial statements that would apply to audits of brokers and dealers and audits of issuers. The comment period ends on September 12,

2011. In addition, the staff is drafting implementation guidance on applying PCAOB standards to audits of brokers and dealers.

5. Communications with Audit Committees – The Board proposed the auditing standard for public comment on March 29, 2010. The comment period ended on May 28, 2010. The Board held a roundtable on September 21, 2010 and reopened the comment period, which ended on October 21, 2010. The staff has analyzed the comments received and is drafting revisions for the Board's consideration.
6. Part of the Audit Performed by Other Auditors (Principal Auditor) – In response to issues identified by the Board's oversight activities and comments received from members of the SAG, the staff is evaluating potential revisions to several auditing standards.
7. Assignment and Documentation of Firm Supervisory Responsibilities (Failure to Supervise) – The Board issued a two-part release on August 5, 2010 addressing matters related to the application of Section 105(c)(6) of the Act, which authorizes the Board to impose sanctions on firms and individuals for failure to supervise. The release highlighted the scope of the application of Section 105(c)(6) and also sought comment on concepts relating to possible rulemaking or standard setting that might complement the Board's application of that provision. The comment period ended on November 3, 2010. The staff is drafting for the Board's consideration proposed amendments to the quality control standards to address assignment and documentation of firm supervisory responsibilities.
8. Quality Control Standards – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, and comments received from members of the SAG, the staff is evaluating potential revisions to the quality control standards, including the SEC Practice Section requirements.
9. Codification of PCAOB Standards – The staff is considering approaches to organize and codify PCAOB standards and is developing recommendations for the Board's consideration, beginning with the auditing standards.
10. Fair Value – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, the comments received from members of the SAG, and FASB's proposed accounting standards on fair value measurements and financial instruments, the staff is evaluating potential revisions to the standards on fair

value measurements and other accounting estimates. This project has two phases: (1) fair value measurement of financial instruments and (2) fair value measurements and other accounting estimates.

- a. Fair Value Measurement of Financial Instruments – This project is being informed by the Pricing Sources Task Force. The Pricing Sources Task Force focuses on the auditing of fair value of financial instruments that are not actively traded and on the use of third-party pricing sources. The task force is comprised of several members of the SAG, as well as other investors, preparers and auditors, and representatives from pricing services and brokers. More details about the activities of the Pricing Sources Task Force are available on the PCAOB's website at: <http://pcaobus.org/Standards/SAG/Pages/PricingSourcesTaskForce.aspx>.
- b. Fair Value Measurement and Other Accounting Estimates – This project addresses a broader range of matters in the areas of fair value measurements and other accounting estimates.

11. Specialists – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, and comments received from members of the SAG, the staff is evaluating potential revisions to the specialist auditing standard.
12. Confirmation – The Board proposed the auditing standard for public comment on July 13, 2010. The comment period ended on September 13, 2010. The staff has analyzed the comments received and is drafting revisions for the Board's consideration.
13. Related Parties – In response to financial reporting frauds that have involved related parties or related party transactions; observations from PCAOB oversight activities, including issues identified during the inspection of accounting firms and certain disciplinary actions; and comments received from members of the SAG, the staff is evaluating potential revisions to the related parties auditing standard, as well as to other auditing standards.
14. Going Concern – In response to comments received from members of the SAG and input from the IAG, the staff is evaluating potential revisions to the going concern auditing standard. The staff also is monitoring the FASB's risks and uncertainties project (formerly FASB's going concern project). Any new auditing standard will take into consideration

new accounting requirements established by the FASB. The FASB has expressed an expectation for considerable progress on this accounting standard-setting project before December 31, 2011.

15. Subsequent Events – In response to the comments received from members of the SAG, the staff is evaluating potential revisions to the subsequent events auditing standard.
16. Attestation Reporting Under Regulation AB – Regulation AB, which addresses the registration, disclosure, and reporting requirements for asset-backed securities, requires an attestation report by a registered public accounting firm regarding each servicer's assertion of compliance with established servicing criteria. The staff is monitoring the SEC's rulemaking relevant to Regulation AB to ascertain what, if any, changes are needed to the Board's standards governing attestation reporting (e.g., AT 601).

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The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.