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**OFFICE OF THE CHIEF AUDITOR**

**STANDARD-SETTING AGENDA**

**NOVEMBER 2012**

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Developing and maintaining high-quality auditing and related professional standards is a key priority of the PCAOB. The PCAOB's Office of the Chief Auditor ("OCA") regularly monitors audit risks, challenges, and the prevailing economic environment as it maintains and adjusts its standard-setting agenda. The agenda is determined based on Board priorities, after consideration of the 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 doing so, the Board's goal is to improve auditing standards as it deems necessary. However, an overriding goal is addressing needed improvements in the interim auditing standards adopted by the Board. In addition, the current standard-setting agenda has been significantly informed by current economic conditions. OCA also has taken into account the results of the Board's oversight activities of registered public accounting firms. For example, issues arising during the economic crisis, including issues identified through the inspection of audits, indicate that there is a need for the Board to address certain of its standards, such as the auditor's reporting model, quality control, fair value measurements, and auditors' responsibilities with respect to other accounting firms, individual accountants, and specialists. Additionally, the standard-setting projects on quality control, auditors' responsibilities with respect to other accounting firms, individual accountants, and specialists, and identification of other public accounting firms or persons not employed by the auditor 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, IASB, and 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 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 overview of projects, presents OCA's current standard-setting agenda and key milestones.

**NOTE REGARDING TIMING OF STANDARD-SETTING PROJECTS:**

*Timing of standard-setting projects may change due to a variety of reasons. Specifically, standard-setting projects are contingent on the Board determining that the staff should pursue, or continue to pursue, a specific project. 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 affect the standard-setting agenda or could result in other priorities not on the agenda.*

<b>Standard-setting Projects – First Half of 2013</b>	
<b>Project</b>	<b>Action</b>
1. Related Parties	Adoption or Re-proposal
2. Reorganization of PCAOB Auditing Standards	Proposal
3. The Auditor's Reporting Model	Proposal
4. Auditors' Responsibilities with Respect to Other Accounting Firms, Individual Accountants, and Specialists	Proposal
5. Audit Transparency: Identification of the Engagement Partner	Adoption or Re-proposal

<b>Possible Standard-setting Projects First Half of 2013 – Timing Dependent on Third Parties</b>	
<b>Project</b>	<b>Action</b>
6. Audits of Brokers and Dealers <sup>1/</sup>	Adoption or Re-proposal
7. Going Concern <sup>2/</sup>	Proposal

<b>Other Standard-setting Projects</b>	
<b>Project</b>	<b>Action</b>
8. Auditor Independence and Audit Firm Rotation	Next steps under consideration
9. Audit Transparency: Identification of Other Public Accounting Firms or Persons Not Employed by the Auditor	Adoption or Re-proposal
10. Assignment and Documentation of Firm Supervisory Responsibilities (Failure to Supervise)	Proposal
11. Quality Control Standards	Concept Release
12. Auditing Fair Value Measurements	Proposal
13. Auditing Accounting Estimates	Proposal
14. Confirmation	Re-proposal
15. Subsequent Events	Proposal

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<sup>1/</sup> The timing of the adoption or re-proposal is dependent upon the SEC's adoption of amendments to Rule 17a-5.

<sup>2/</sup> The timing of the proposal is dependent upon the timing FASB's going concern project.

## Standard-setting Brief Project Overview

1. **Related Parties** – On February 28, 2012, the Board issued for public comment a proposed auditing standard and proposed amendments to certain of its auditing standards. The proposed standard and proposed amendments address the following areas for auditors: (1) evaluating a company's identification of, accounting for, and disclosure of, relationships and transactions with related parties; (2) identifying and evaluating a company's significant unusual transactions; and (3) obtaining an understanding of a company's financial relationships with its executive officers as part of the auditor's risk assessment. The proposed standard and proposed amendments were discussed with the SAG on May 17, 2012. The comment period ended on May 31, 2012. The staff has analyzed the comments received and is drafting revisions for the Board's consideration. [For further information, see [Rulemaking Docket No. 038](#).]<sup>3/</sup>
2. **Reorganization of PCAOB Auditing Standards** – The staff is developing a potential framework for reorganizing PCAOB auditing standards, that involves integrating the Board's interim auditing standards (currently denoted by "AU") with auditing standards originally issued by the Board (currently denoted by "AS").
3. **The Auditor's Reporting Model** – This topic was discussed with the SAG and IAG on several occasions. Outreach was conducted by the staff to ascertain and identify additional investor and user needs. The staff presented its findings to the Board at an 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 Board held a roundtable on this topic on September 15, 2011. The comment period ended on September 30, 2011. The staff has analyzed the comments received and is drafting for the Board's consideration a proposed standard. The staff also is monitoring the activities of other regulators and standard-setters in this area. [For further information, see [Rulemaking Docket No. 034](#).]
4. **Auditors' Responsibilities with Respect to Other Accounting Firms, Individual Accountants, and Specialists (formerly, Part of the Audit Performed by Other Auditors and Specialists Projects)** – In response to issues identified by the Board's oversight activities, comments received from members of the SAG, and lessons learned from the economic crisis, among other things, the staff is considering possible revisions to standards related to audits involving other accounting firms,

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<sup>3/</sup> The rulemaking docket number provides a link to any related concept release, proposal, or re-proposal that the Board has issued for public comment, related Board member statements, and comments received.

individual accountants and specialists. The project is intended to improve the planning, supervision, and other aspects of such audits.

5. **Audit Transparency – Identification of the Engagement Partner** – On October 11, 2011, the Board issued for public comment proposed amendments to its auditing standards and annual reporting form. The proposed amendments would improve transparency of audits by requiring the disclosure of the engagement partner. The comment period ended on January 9, 2012. The staff has analyzed the comments received and is drafting revisions for the Board's consideration. [For further information, see [Rulemaking Docket No. 029](#).]
6. **Audits of Brokers and Dealers** – On July 12, 2011, the Board proposed two attestation standards for audits 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 an auditing standard for audits of supplemental information accompanying audited financial statements. The proposed auditing standard would apply when the auditor of the company's financial statements is engaged to audit and report on supplemental information that accompanies the audited financial statements. The comment period ended on September 12, 2011. The staff has analyzed the comments received and is drafting revisions for the Board's consideration. The timing of the re-proposal or adoption is dependent upon the SEC's adoption of amendments to Rule 17a-5. In addition, the staff is drafting implementation guidance on applying PCAOB standards to audits of brokers and dealers. [For further information, see [Rulemaking Docket No. 035](#) and [Rulemaking Docket No. 036](#).]
7. **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 activities in this area. Any new auditing standard would take into consideration any relevant changes to the accounting standards proposed by the FASB.
8. **Auditor Independence and Audit Firm Rotation** – On August 16, 2011, the Board issued a concept release to solicit public comment on ways to enhance auditor independence, objectivity, and professional skepticism, 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 ended on December 14, 2011. The Board held three public meetings in 2012 to discuss auditor independence and mandatory audit firm rotation. In connection with each of these public meetings, the Board reopened the comment period on the concept release to provide an opportunity for members of the public to offer their views, including views on any new information that became available as a result of the meetings. In connection with the most recent public meeting held on October 18 in Houston, TX, the Board has reopened the

comment period until November 19, 2012. The staff is analyzing comments received. [For further information, see [Rulemaking Docket No. 037.](#)]

9. Audit Transparency – Identification of Other Public Accounting Firms or Persons Not Employed by the Auditor – On October 11, 2011, the Board issued for public comment proposed amendments to its auditing standards. The proposed amendments would improve transparency of audits by requiring the disclosure of other accounting firms and other persons that took part in the audit. The comment period ended on January 9, 2012. The staff has analyzed the comments received and is drafting revisions for the Board's consideration. [For further information, see [Rulemaking Docket No. 029.](#)]
10. 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 has analyzed the comments received and is considering possible amendments to the quality control standards to address assignment and documentation of firm supervisory responsibilities. [For further information, see [Rulemaking Docket No. 031.](#)]
11. 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 developing a concept release to explore potential improvements to the existing quality control standards, including the SEC Practice Section requirements.
12. Auditing Fair Value Measurements – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, comments received from members of the SAG, and FASB's proposed accounting standard on financial instruments, the staff is evaluating potential improvements to the standard on auditing fair value measurements. This project also is being informed by the Pricing Sources Task Force, which has focused on the auditing of the fair value of financial instruments that are not actively traded and on the use of third-party pricing sources. The staff is drafting for the Board's consideration a proposed standard.
13. Auditing Accounting Estimates – 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 improvements to the standard on auditing accounting estimates. This project addresses a broad range of matters in the area of auditing accounting estimates.

14. 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 a re-proposal for the Board's consideration. [For further information, see [Rulemaking Docket No. 028.](#)]
15. Subsequent Events – In response to the comments received from members of the SAG, the staff is evaluating potential improvements to the subsequent events auditing standard.

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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.