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**OFFICE OF THE CHIEF AUDITOR**

**STANDARD-SETTING AGENDA**

**JUNE 30, 2013**

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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 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 SEC staff, 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 PCAOB's goal is to improve auditing standards as it deems necessary to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. 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 standards, including assignment and documentation of firm supervisory responsibilities; auditing accounting estimates, including fair value measurements and disclosures; 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 ("other participants") will consider challenges pertaining to PCAOB inspections of registered firms based outside the U.S. Finally, the projects to address the auditor's reporting model and to improve transparency about the audit by identifying the engagement partner and other participants in the audit are intended to address investors' needs for a more informative audit report.

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| <p>This standard-setting agenda was prepared by the staff of the Office of the Chief Auditor. It is not a statement of the Board; nor does it necessarily reflect the views of the Board, individual Board members, or other staff.</p> |
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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 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 (for example, 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 (including the projects on revenue recognition and going concern) 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<sup>1/</sup> 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 table on the next page, followed by a brief overview of projects, presents OCA's current standard-setting agenda and key milestones. Timing of standard-setting projects is subject to change.

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<sup>1/</sup> See <http://pcaobus.org/Standards/Pages/Guidance.aspx>.

**Standard-setting Projects**

| <b>Recent Board Actions</b>                                 |  |
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| <b>Project</b>  | <b>Action</b>  |
| 1. Framework for Reorganization of PCAOB Auditing Standards | Comment period closed May 28, 2013. Staff analyzing comments |
| 2. Related Parties  | Re-proposal issued for public comment.                       |

| <b>July to December 2013</b>   |                         |
|--|-------------------------|
| <b>Project</b>   | <b>Action</b>           |
| 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 and Other Public Accounting Firms or Persons that are Not Employed by the Auditor but Participate in the Audit | Adoption or Re-proposal |

| <b>Possible July to December 2013 – Timing Dependent on Third Parties</b> |                         |
|---|-------------------------|
| <b>Project</b>  | <b>Action</b>           |
| 6. Audits of Brokers and Dealers <sup>2/</sup>                            | Adoption or Re-proposal |
| 7. Going Concern <sup>3/</sup>  | Proposal                |

| <b>Other Active Projects</b>  |                                |
|---|--------------------------------|
| <b>Project</b>  | <b>Action</b>                  |
| 8. Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities | Concept Release                |
| 9. Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures               | Proposal                       |
| 10. Auditor Independence, Objectivity, and Professional Skepticism  | Next steps under consideration |
| 11. Confirmation  | Re-proposal                    |

<sup>2/</sup> The timing of the adoption or re-proposal is dependent upon the SEC's adoption of amendments to Rule 17a-5.

<sup>3/</sup> The timing of the proposal is dependent upon the timing FASB's going concern project.

| <b>Other Active Projects</b> |               |
|------------------------------|---------------|
| <b>Project</b>               | <b>Action</b> |
| 12. Subsequent Events        | Proposal      |

## Standard-setting Brief Project Overview

1. Framework for Reorganization of PCAOB Auditing Standards – On March 26, 2013, the Board issued for public comment a potential framework for reorganizing the Board's existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system, along with certain implementing amendments to its rules and standards. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process and is intended to help users navigate the standards more easily. The comment period on the potential framework ended on May 28, 2013. The staff is analyzing the comments received and is drafting revisions to the potential framework for the Board's consideration. [For further information, see [Rulemaking Docket No. 040.](#)<sup>4/</sup>
2. Related Parties – On May 7, 2013, the Board issued for public comment a re-proposed auditing standard and re-proposed amendments to certain of its auditing standards. The re-proposal addresses 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 re-proposal was discussed with the SAG on May 15, 2013. The comment period on the re-proposal ends on July 8, 2013. [For further information, see [Rulemaking Docket No. 038.](#)]
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 – In response to issues identified by the Board's

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<sup>4/</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.

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, 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 and Other Public Accounting Firms or Persons that are Not Employed by the Auditor but Participate in the Audit** – 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 and 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](#).]
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 activities of the FASB and IASB in this area. Any new auditing standard would take into consideration any relevant changes to the accounting standards proposed by the FASB and/or IASB.
8. **Quality Control Standards, Including Assignment and Documentation of Firm Supervisory Responsibilities** – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, and comments received from SAG members, the staff is developing a concept release to explore potential improvements to the existing quality control standards, including the SEC Practice Section requirements. This project also includes consideration of potential improvements to the quality control standards regarding firm supervisory

responsibilities. [For further information on assignment and documentation of firm supervisory responsibilities, see [Rulemaking Docket No. 031.](#)]

9. Auditing Accounting Estimates, Including Fair Value Measurements and Related Disclosures – 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 drafting for the Board's consideration a proposed standard on auditing accounting estimates, including fair value measurements and related disclosures. Similar to other standard setters, the staff is drafting a combined standard addressing a broad range of matters in the area of auditing accounting estimates and 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.
10. Auditor Independence, Objectivity, and Professional Skepticism – 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. The latest extended comment period closed on November 19, 2012. The staff is analyzing comments received and next steps are being considered. The staff also is monitoring the activities of other regulators, standard setters, and legislative bodies in this area. [For further information, see [Rulemaking Docket No. 037.](#)]
11. Confirmation – On July 13, 2010, the Board issued for public comment a proposed auditing standard. The comment period ended on September 13, 2010. The staff has analyzed the comments received and is planning to draft a re-proposal for the Board's consideration. [For further information, see [Rulemaking Docket No. 028.](#)]
12. 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.