

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on April 8, 2010 that related to the Board's proposed auditing standards related to the auditor's assessment of and response to risk. The other topics discussed during the April 8, 2010 meeting are not included in this transcript excerpt.

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http://pcaobus.org/News/Events/Pages/04072010_SAGMeeting.aspx.

7 MR. BAUMANN: Okay, thank you. Well, the
8 final item on our agenda, as we move towards a
9 close, as I mentioned, the proposed and then re-
10 proposed standards on the auditors identification
11 of risk and the auditor's assessment and response
12 to that risk. And these risk assessment standards
13 that go right from planning and supervision, right
14 through collecting of audit evidence, I think there
15 are critical standards foundational in their nature
16 to where our future standard setting goes.

17 Keith Wilson has been leading the project
18 on the risk assessment standards. As I mentioned
19 the comment period closed on March 2nd. Keith is
20 working closely with the rest of the staff and with
21 me, moving towards a final proposal of -- final
22 issuance of those standards with a target for the

1 third quarter.

2 Keith -- I've asked Keith to give an
3 update on the comments that were received as part
4 of the re-proposal.

5 MR. WILSON: Thank you, Marty. As he
6 mentioned, my objective here is to brief you on the
7 comments that we received so -- on the proposal,
8 and not -- we're still in the process of analyzing
9 them. So we don't have formal conclusions or
10 recommendations to the board at this time, but we
11 wanted to try and give you a bit of a sense of some
12 of the comments that we've received.

13 I also should preface my remarks by
14 saying that I realize that some of you around this
15 table may have actually participated in drafting
16 comment letters and providing those comments to us.

17 The natural part of this process is we have to
18 winnow some of them for this presentation. So you
19 may not see every comment that you had placed in a
20 comment letter, but please, rest assured that we
21 are carefully looking at each and every comment.
22 And we'll plan to make an appropriate response to

1 those.

2 Before I actually get into the individual
3 slides, let me just quickly for those who haven't
4 been following this project as closely, give you a
5 just a quick overview of the standards themselves,
6 what's involved in this suite of seven, as some
7 have called it. And then we'll move right into
8 comments.

9 The first standard is standard on audit
10 risk, which describes in general terms the
11 components of audit risk and the auditor's
12 consideration of audit risk in both from the
13 assessment and the developing procedures to respond
14 to risk.

15 Audit planning and supervision in the
16 second standard, as the name implies, it describes
17 the auditor's responsibilities for planning the
18 audit and for supervising engagement team members.

19 And that would include things like deciding which
20 matters are important to audit planning, and
21 setting an appropriate audit strategy and plan.

22 The third standard called consideration

1 of materiality in planning and performing an audit
2 describes the auditor's responsibilities for
3 applying the established concepts of materiality
4 and planning the audit and performing audit
5 procedures and determining in effect the scope of
6 the audit.

7 The standard identifying and assessing
8 risks of material misstatement describes the
9 auditor's responsibilities for performing
10 procedures to identify and assess the risks of
11 material misstatement and the companion standard to
12 that, the auditor's responses to the risk of
13 material misstatement describes the
14 responsibilities for developing overall responses
15 to the way the engagement is conducted, as well as
16 developing specific procedures to respond to the
17 risks that have been identified.

18 Evaluating audit results is a standard
19 that describes the process, the auditor's
20 responsibilities for evaluating the evidence that
21 they've obtained during the audit and determining
22 whether or not they've obtained sufficient

1 appropriate evidence to support their conclusions
2 expressed in the auditor's report.

3 And finally, the standard on audit
4 evidence talks more about the sufficiency, what
5 sufficiency and appropriateness of audit evidence
6 means and what procedures the auditor might perform
7 to obtain that evidence.

8 All right. This time, we have -- we've
9 received 23 comment letters down somewhat from the
10 prior year. The profile here as we've described,
11 there are 10 from auditing firms. There are -- we
12 received six comment letters from what I call
13 associations of accountance or firms. So that
14 would be like state societies, three international
15 associations of accountants, and the Center for
16 Audit Quality.

17 The academics -- one of those commenters
18 in the academic column is the Auditing Standards
19 Committee for -- of the American Accounting
20 Association. And then there was an individual
21 academic.

22 In the last category, other includes

1 CALPERS, the Institute of Internal Auditors, the
2 GAO, the U.S. Chamber of Commerce, and an
3 individual who's apparently a consultant.

4 Just as a general observations, I would
5 say that most of the commenters did acknowledge and
6 recognize that there were improvements in the re-
7 proposed standards as compared to the original
8 standards. And I say that for two reasons. It was
9 -- in some cases, the commenter specifically
10 acknowledged improvements, supported some of the
11 changes that we'd made affirmatively. And also,
12 there was a substantial reduction in the number of
13 comments in these -- to the re-proposal as compared
14 to the original proposal.

15 In general, the themes that we saw in the
16 comment letters were substantially the same as the
17 comments that we received on the original proposal,
18 but the specific comments may have changed.

19 So for example, one of the area -- the
20 key objectives of this project, we were -- as been
21 said, was to try and create better alignment
22 between the standards for assessing and responding

1 to risk and the board standard for auditing
2 internal control over financial reporting, AS 5.

3 And there were a number of comments on
4 the original proposal about suggesting ways to
5 improve the alignment. And we made a number of
6 changes in that area for the re-proposal. The
7 commenters seem to -- some of them specifically
8 supported those changes that we made in that area.

9 And we really had a substantial reduction in the
10 number of comments. I think the primary -- we had
11 one commenter who suggested a number of amendments
12 to AS 5 in light of the re-proposed risk assessment
13 standards. But generally, there seem to be an
14 acknowledgement that there is good alignment
15 between the standards now.

16 Some -- we did have a number of
17 commenters who continued to make statements about
18 supporting -- reducing unnecessary differences with
19 the standards of the IAASB and the ASB. Some used
20 words like "convergence." Others, "align." Some
21 said "reducing unnecessary differences," but all in
22 that same sort of vein.

1 And some -- one area that we receive
2 quite a bit of comment, and maybe the largest
3 single area, in fact, was asking more information -
4 - asking for more information, more explanation
5 about how these re-proposed standards would affect
6 audits. What were we expecting auditors to change?

7 And what's the board's rationale? Just more
8 information about those kinds of questions.

9 They -- the comments varied in terms of
10 the types of specific information they wanted, the
11 form of the information that they were looking for,
12 but certainly that's an area that's going to
13 require a lot of thinking and study on our part, in
14 terms of coming up with a way to more effectively
15 describe the changes that we would expect these
16 standards to have on audits.

17 We had -- we did have some commenters
18 that acknowledged that some changes that the board
19 had made in the standard setting process, and
20 efforts to improve transparency such as having a
21 concept release, or in this case, a second proposal
22 of the standards, so some of those -- and just some

1 general observations about things that we've done
2 in terms of publishing our agenda and keeping
3 updated on that.

4 There were other -- a host of other
5 recommendations on improving the standard setting
6 process in general. Probably the most common was a
7 recurring suggestion to use external tax forces in
8 the process of drafting standards and various
9 comments along those lines.

10 There were -- as a -- as been mentioned a
11 couple of times already, one of the big areas of
12 focus in this project was to try and integrate the
13 requirements for the auditor to assess and respond
14 to fraud risk as part of this risk assessment
15 standards. And we -- on the original proposal, we
16 received a number of comments about this. They
17 were quite missed. Some were very supportive.
18 Some had concerns. Some were neutral.

19 We had fewer comments this time, but we
20 continued to receive some comments about that. And
21 again, it's mixed. Some support it quite strongly.
22 Some are more concerned about that approach.

1 And we did have -- I think has been
2 mentioned at least a little bit, one of the
3 important points of emphasis in the re-proposal as
4 compared to the original proposal, is a number of
5 new requirements related to -- they were intended
6 to focus the auditor on the area of disclosures.

7 And so, in some of the standards, their
8 requirements for -- as part of obtaining an
9 understanding of the company and the environment to
10 develop expectations, I'll say, of the types of
11 disclosures that they had expect to see in the
12 financial statements.

13 In terms of thinking about assessing risk
14 or brainstorming about fraud risk, to think about
15 ways that the financial statements might be
16 misstated by omitting disclosures or providing
17 incomplete disclosures. And then a more focused
18 discussion in the standard on evaluating the
19 financial statements, more discussion about
20 specifically evaluating the disclosures in the
21 financial statements.

22 Commenters generally supported the new

1 requirements. We did get some specific comments
2 for requests for clarification about these -- the
3 specific requirements that we had. And I'll
4 discuss those as we get in the particular
5 standards, but I think generally, commenters seem
6 to be supportive of those additional requirements.

7 Training the specific standards, the
8 audit risk standard, as I mentioned, it describes
9 the individual components of audit risk, the risk
10 that the financial -- that the auditor would issue
11 an inappropriate opinion when the financial
12 statements are materially misstated.

13 And we had some requests in the comments
14 for some additional discussion about some of the
15 points that we had covered in there.

16 For example, when we talked about risks
17 at the financial statement level, the one had more
18 discussion about how those kinds of risks would
19 result in misstatement of the financial statements.

20 So for example, if there was a decline in
21 the company's industry, how would that potentially
22 result in material misstatement of the financial

1 statements? They wanted the standard to talk about
2 that more.

3 And also, to talk a little bit more about
4 some of the points about how the auditor considers
5 risk and develops procedures to respond to risk.

6 The planning and supervision standard, as
7 the name suggests, and as the interim -- like the
8 interim standard it would replace, covers both
9 audit planning and supervision. And we received
10 comments that along the lines of these are, in
11 fact, separate topics. They may have some
12 relationship, but they're really separate topics.
13 So they ought to be in separate standards.

14 So if we follow those recommendations, I
15 guess we would end up with a suite of eight
16 standards instead of a suite of seven standards.

17 There were some comments about the role
18 of the engagement partner and the responsibilities
19 in here. And I guess by way of background, the
20 standard starts off early on by saying that the
21 engagement partner is responsible for the
22 engagement and its performance. And therefore,

1 they're responsible for planning and supervision,
2 but they may seek assistance from other engagement
3 team members.

4 From that point following in the
5 standard, we use the word "auditor" in the standard
6 to encompass both the engagement partner and others
7 who are involved in the process. And there were
8 some requests to lay out in the standard the
9 linkage between the engagement partner and auditor
10 responsibilities as we describe it in the standard.

11 One area that was a significant area of
12 change relates to the scoping for multi location
13 engagements. And that refers to how the auditor
14 determines how much work to do at individual
15 locations when there's a multi location engagement.

16 We had a number of commenters on the
17 original proposal that essentially said you should
18 align this -- these requirements more closely with
19 AS 5. And you should make it more risk based.

20 So we did that. And there seemed to be
21 support for that, but there were a couple of points
22 that they wanted to -- that commenters called our

1 attention to.

2 One is there's a specific requirement in
3 the standard for varying the procedures at
4 locations from year to year. That requirement
5 parallels a similar requirement in AS 5. And
6 commenters suggested that that was too
7 prescriptive, it was unnecessary because we do have
8 another standard that more generally requires the
9 auditor to incorporate an element of
10 unpredictability. And they were suggesting that
11 this specific requirement could be made an example
12 of the more general requirement in our standard.

13 There were also specific requests, going
14 back to a topic that we covered -- that we talked
15 about yesterday, the -- how would the requirements
16 we have for scoping multi location engagements
17 apply when there's another auditor involved? And
18 specifically, when there's divided reporting
19 responsibility kinds of situations?

20 So a request for at least an explanation,
21 if not some kind of addition -- modified provisions
22 to address those situations.

1 Another area that we made a significant
2 change in the re-proposal versus the original
3 proposal is in the area of considering the need for
4 persons with specialized skill or knowledge.

5 The original proposal had said that -- it
6 required the auditor to consider as part of
7 planning whether or not they needed a person with
8 specialized skill or knowledge in order to
9 effectively conduct the audit in essence. And
10 there were also -- there's also a requirement in
11 there related to the knowledge that the core audit
12 team needed of the subject matter in order to
13 effectively deal with the person with specialized
14 knowledge or skill.

15 Some of the original requirements were
16 framed in terms of IT specialists, because that was
17 what the -- our existing standard frames the
18 requirement. We had a lot of comments to the
19 original proposal that said broaden it to include
20 anyone with specialized skill or knowledge. And we
21 did that. And so, we seem to get support for that
22 change.

1 They did have -- and there were a couple
2 of drafting suggestions for it, but one --
3 commenters also took the opportunity to provide
4 some of their views on when someone -- when a
5 specialist should be under the general requirements
6 for supervision versus when they should be under a
7 separate standard for using an auditor specialist.

8 So some of those, we're going to analyze
9 those comments. Some of them may be more
10 applicable to the separate specialist project. And
11 if they don't get picked up and addressed as part
12 of this project, certainly they would be something
13 we would consider in the follow-on specialist
14 project.

15 A -- and on the standard on materiality,
16 there were three significant changes to that -- to
17 the re-proposal, which sparked comments.

18 The first was a change in the
19 articulation of the concept of materiality. The
20 original proposal we had used a quotation that
21 existed in our existing interim standard, that is
22 from a FASB Concept Statement number 2, that

1 describe materiality. And we had a footnote that
2 referenced the applicable interpretation of the
3 federal courts in interpreting the securities --
4 federal securities laws.

5 And during the intervening time between
6 the original proposal and the re-proposal, of
7 course, FASB released its codification, which as
8 you know, doesn't include the concept statements.
9 So that caused us to pause and reflect on this
10 discussion. And what we came back to was actually
11 the standard that does apply in these situations,
12 which is the standard that's articulated by the
13 courts.

14 So our standard now says -- now uses the
15 articulation from the federal court decision that
16 states a fact is material if there's substantial
17 likelihood that the fact would have been viewed by
18 the reasonable investor as having significantly
19 altered the total mix of information made
20 available.

21 So in re-proposal, that's the
22 articulation that we use. And it -- because it is

1 in fact the standard as I mentioned that's used.

2 And it does also make clear that the concept of
3 materiality that applies here should reflect the
4 perspective of a reasonable investor.

5 And comments on this area ranged from
6 some requests for some additional discussion about
7 how this concept is applied in an accounting sense,
8 to some actual just concerns about using a court --
9 language from the federal courts in an auditing
10 standard.

11 Another area that drew some comment, we
12 included another sentence in the standard -- the
13 standard requires that when planning the audit, the
14 auditors should establish a materiality level for
15 the financial statements that's appropriate in
16 light of the particular circumstances. And we'd
17 added a statement that said that this includes
18 consideration of the company's earnings and other
19 relevant factors. That was really intended to be
20 just an acknowledgement of the fact that typically,
21 for these kinds of companies, earnings is the most
22 significant factor.

1 But we did have some commenters asking
2 questions along the lines of well, does that mean
3 you always have to use earnings? Does earnings --
4 is that required universally in each case? Is our
5 intention -- what did we mean by other relevant
6 factors. So really, that's more asking for I would
7 say clarification on that point.

8 Then another area that was a change in
9 the re-proposal was we added specific provisions
10 related to determining materiality for -- in multi
11 location audits at the individual component level.

12 So determining the materiality at an individual
13 business unit or location.

14 And the -- there was a general principle
15 articulated in the requirement to say that the
16 materiality at that individual location or
17 component level cannot exceed and generally should
18 be less than materiality for the financial
19 statements as a whole.

20 And we received some generally favorable
21 comments for adding this requirement, but there
22 were some requests, again, for specific additional

1 clarification on, for example, how you would apply
2 this again in a divided reporting scenario when
3 there was another auditor involved.

4 In the identifying and assessing risks of
5 material misstatement standard, we have received --
6 continued to receive comments on a requirement to
7 consider performing additional procedures, which
8 involve things such as reading public information
9 about the company, such as analyst reports, reading
10 transcripts of earnings calls, obtaining
11 information about trading activity in the company's
12 securities by significant holders to identify
13 potentially significant unusual developments.

14 And most of the comments in this area are
15 really around scope, what are the expectations? Do
16 we expect auditors to go out and track down every
17 single piece of publicly available information
18 about the company and affirmatively document that
19 and check off do we intend for them to look at it
20 or not?

21 So this, again, is another example of
22 trying to provide some requests for clarification

1 about what the expectation of performance is.

2 Then for the areas where -- the
3 requirements that I mentioned about obtaining and
4 understanding about necessary financial statement
5 disclosures and some of those requirements that
6 want -- the commenters asked us to be sure to
7 clarify that we're talking about evaluating
8 disclosures in the context of the applicable
9 financial reporting framework.

10 And there were -- in the area of
11 obtaining an understanding of internal control over
12 financial reporting, we have -- in order to
13 determine how -- the extent of the understanding
14 that's needed, the standard outlines certain
15 objectives that the auditor needs to meet overall.

16 And that's supposed to guide the auditor through
17 the process of determining for each component of
18 internal control, how much information that they
19 need. There's still some -- in the area of when we
20 get down to control activities, there's some
21 concern about whether or not -- what our
22 expectations are in terms of how much understanding

1 of control activities there are? Are we intending
2 the auditor to look at all control activities? Or
3 are we really intending there to be a significant
4 change in practice related to that. So again, a
5 request for clarification on that point.

6 And then finally, on this standard, the -
7 - we have a requirement, which really is carried
8 forward from our existing requirements for the
9 auditor to consider information obtained from other
10 engagements.

11 And that information, we had two types of
12 comments on that requirement.

13 MALE SPEAKER 1: That's other engagements
14 for the issuer.

15 MR. WILSON: Yes, other engagements for
16 the company. Yes. And they -- some people felt
17 like this was too broad. And there were
18 suggestions to either go back and use some
19 additional language that's in our existing
20 requirement, or to alternatively frame this in
21 terms of the engagements performed by the
22 engagement partner, as opposed to by the firm.

1 So those -- that would, in fact, if we
2 went to engagement partner, that would in fact be a
3 change from our existing standards and our existing
4 requirement.

5 For the auditor's response standard,
6 there are requirements -- we spent a good bit of
7 time here in trying to frame the auditor's
8 responsibilities around using information from
9 prior audits to -- in the evaluation of the
10 effectiveness of controls. And we have like in
11 some respects AS 5, this standard requires the
12 auditor to obtain evidence each year about controls
13 that they're going to rely on.

14 But it does allow the auditor to use
15 evidence from prior year and information about risk
16 in determining how much additional information they
17 need in the current year.

18 And so, we had comments on this
19 requesting that we add some additional language to
20 make clear that this could be -- that the
21 information from prior year could inform the
22 auditor's risk assessments, which in turn drives

1 the extent of evidence needed in the current year.

2 And in the area of -- there were -- we
3 have requirements related to situations in which
4 the auditor performs substantive testing at year-
5 end -- at an interim date. For example, in a
6 calendar year-end audit, they might test accounts
7 receivable at October 31. And we have requirements
8 that really are adapted from our existing
9 requirements about going and updating the auditor's
10 conclusions from that interim date to year-end.

11 And what the standard requires the
12 auditor to perform procedures to cover the
13 remaining period that would provide a reasonable
14 basis for extending those conclusions.

15 And then we have some specific procedural
16 requirements that need to be included as part of
17 that work, which again, are carried forward from
18 our existing standard. It was the -- we did get
19 comments and some of the commenters indicated that
20 those specific additional requirements weren't
21 necessary and that we should just go with the more
22 general requirement about performing procedures

1 that provide a reasonable basis.

2 In the evaluating audit result standard,
3 we had -- our repropsoed standard requires the
4 auditor to accumulate misstatements that they find,
5 other than those that are essential de minimus.
6 And if they're uncorrected, to communicate those to
7 management. And if management does not correct
8 them, to evaluate the reasons why as part of their
9 assessment of bias.

10 There were some commenters asked us to
11 also include a specific requirement for the auditor
12 to request management to correct the uncorrected
13 misstatements. And we received that comment on the
14 initial proposal. Our reaction was that there are
15 already existing requirements for management to do
16 that, that it was unnecessary for us to put in an
17 auditing standard to specifically require the
18 auditor to ask management to correct those, but we
19 nevertheless received additional comments that we
20 should have such a requirement in the standard.

21 We have a requirement -- another area --
22 we have a requirement in the area of evaluating

1 uncorrected misstatements. We have an existing
2 requirement to -- and carried forward in these
3 standards, to evaluate the effects of uncorrected
4 misstatements detected in prior years and
5 misstatements detected in the current year that
6 relate to prior years as part of the overall
7 evaluation of uncorrected misstatements. And some
8 commenters wanted us to include a specific cross
9 reference to SEC Staff Accounting Bulletin Number
10 108 on the subject of considering the effects of
11 prior year misstatements. So a number of
12 commenters suggested that we add that reference.

13 Then the last point on this -- in this
14 area was a recommendation, again, as I mentioned
15 that we have specific additional requirements for
16 evaluating disclosures as part of the evaluating
17 the presentation of the financial statements, and
18 specifically, evaluating whether the financial
19 statements include all the required disclosures.

20 And we had some commenters that requested
21 that we be sure and make a qualification to this
22 requirement, based on materiality.

1 The audit evidence standard, there were
2 requests for additional explanation about put
3 sufficiency and appropriateness of audit evidence
4 means. And some said create some specific
5 definitions of sufficiency and appropriateness to
6 include as part of the standard. Another said that
7 sometimes in our standards, we use the word
8 persuasive or persuasiveness. Please provide an
9 explanation of how persuasiveness relates to
10 sufficiency and appropriateness. So we receive
11 those kinds of comments.

12 In the area of amendments to PCAOB
13 standards, the reproposal included some specific
14 additional documentation requirements that weren't
15 in the original proposal. Some of them related to
16 things such as documenting the risk assessment
17 procedures and the responses to the risks,
18 including a summary of identified risk, the
19 auditor's assessment of the risks at the financial
20 statement and assertion levels and the auditors
21 responses, showing the linkage between the risk
22 assessments and the responses.

1 And we had some commenters -- we had a
2 couple commenters that said that this requirement
3 itself was too prescriptive. Others just
4 questioned whether we should be -- we had proposed
5 this as an amendment to AS 3. Some had suggested
6 that it actually was more appropriate to put these
7 kind of documentation requirements in the
8 respective standards.

9 And finally, in the area of -- in our --
10 we had proposed an amendment to the audit sampling
11 standard. And it relates to sample sizes when an
12 auditor's using non statistical sampling methods.
13 And the requirement would say that when a non
14 statistical sampling method is applied properly,
15 the resulting sample size ordinarily will be
16 comparable to or larger than the sample size
17 resulting from an efficient and effectively
18 designed statistical sample.

19 And we explained in the release that the
20 intent is not that you calculate a statistical
21 sample and a non statistical sample size. The idea
22 is that recognizing that a number of firms already

1 have methodologies to accomplish this, that were
2 derived from statistical sampling methods that they
3 could just use those. And the idea was to point to
4 that, as opposed to just saying I'll pick three,
5 because -- based on my professional judgment, but
6 to put some more rigor around the process of
7 considering what an appropriate sample size was.

8 We had requests to put in some qualifiers
9 to specifically say in the standard that we are not
10 intending for auditors to calculate sample sizes
11 under both methods.

12 So that concludes my remarks on the
13 comments that we received so far. And I suppose we
14 have a couple minutes, if anyone has questions or
15 comments, wants to react to that.

16 Oh, Doug, come up.

17 MR. CARMICHAEL: Yeah, just comment. And
18 I -- whenever I bring this up, boy, say well, it's
19 not a problem because management today is
20 correcting all the misstatements that the auditor
21 proposes anyway.

22 But I think it'd be a good idea to

1 reinforce the point from the Sarbanes Oxley Act
2 that management is required to correct all material
3 adjustments that the auditor proposes just to
4 remind people of that.

5 MR. WILSON: That's a good point.

6 Thanks.

7 MR. BAUMANN: Okay, well, thank you very
8 much. Keith, thanks for that summary. We did that
9 because as I've said on numerous occasions, I think
10 these seven standards are very important for the
11 performance and execution of an audit. And they
12 are adding to the framework that already exists
13 under PCAOB standards, and will be foundational for
14 future standard setting.

15 Our goal, as I mentioned earlier, and it
16 is a goal, it's a lot of work here, is to try to
17 address all of these comments and try to issue
18 these standards during the third quarter.

Meeting of the Standing Advisory Group

April 8, 2010

8:30 a.m. – 12:30 p.m.

Risk Assessment- Summary of Comments Received

Keith Wilson
Associate Chief Auditor,
Office of the Chief Auditor

Risk Assessment

□ Profile of Commenters

■ Auditing firms	10
■ Associations of accountants/firms	6
■ Academics	2
■ Other	<u>5</u>
Total	23

General Observations

- Most commenters recognized improvements in the re-proposed standards and release
- Overall themes in the comment letters were substantially the same as the comments on the original proposal, with some changes to the specific recommendations
- Some commenters continued to support reducing unnecessary differences with standards of the IAASB and ASB
- Some commenters requested more detailed information in the release, including more explanation about how the re-proposed standards would affect audits

General Observations

- Some commenters offered recommendations regarding the Board's standards-setting process, e.g., specific measures to increase transparency in the process and use of task forces in drafting standards
- A few commenters expressed their views on the integration of fraud considerations into the risk assessment standards
- Some commenters expressly supported the new requirements regarding consideration of disclosures, and a few requested clarifications regarding some of those requirements

Comments on Specific Standards

- Audit Risk
 - Requests for clarification or additional explanation of the components of audit risk
- Planning and Supervision
 - Recommendations to divide the standards into separate standards for planning and for supervision
 - Requests for clarification of the role of the engagement partner for supervision and review

Comments on Specific Standards

- Planning and Supervision (cont'd)
 - Regarding the requirements for multi-location engagements:
 - Concerns that the requirements for varying procedures at locations year to year is too prescriptive
 - Requests for direction on applying the requirements to situations when the work and reports of other auditors are used
 - General support for the provisions regarding persons with specialized skill or knowledge, with a variety of recommended enhancements

Comments on Specific Standards

- Consideration of materiality in Planning and Performing an Audit
 - Concerns regarding the use of the federal courts' description of the concept of materiality
 - Requests for clarification regarding the new statement about considering the company's earnings and other relevant factors in making judgments about materiality
 - General support for the provision for determining materiality in multi-location engagements, and requests for explanation about how to apply certain aspects of the new provision for multi-location engagements

Comments on Specific Standards

- Identifying and Assessing Risks of Material Misstatement
 - Requests for clarification of the requirement to consider performing certain procedures while obtaining an understanding of the company, amid concerns that a broad interpretation of the requirements could be unduly burdensome
 - Requests for clarification of certain requirements regarding consideration of necessary financial statement disclosures
 - Requests for clarification of the requirements for obtaining an understanding of control activities
 - Concerns that the wording of the requirement to consider information from other engagements performed for the company was too broad

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Comments on Specific Standards

- Auditor's Responses to the Risks of Material Misstatement
 - Requests for additional clarification of the requirements regarding the use of evidence from past audits when evaluating the effectiveness of controls
 - Concerns that the requirements for updating procedures when substantive tests were performed at an interim date are too prescriptive

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Comments on Specific Standards

- Evaluating Audit Results
 - Recommendation to require auditors to request that management correct all misstatements
 - Recommendation to include a reference to SEC Staff Accounting Bulletin 108 in the discussion of evaluation of misstatements
 - Recommendation that the requirement for evaluating disclosures be qualified based on materiality

Comments on Specific Standards

- Audit Evidence
 - Requests for more explanation of the concepts of "sufficiency" and "appropriateness" of audit evidence
- Amendments to PCAOB standards
 - Auditing Standard No. 3, *Audit Documentation* (AS 3): recommendation that amendments be placed in the respective risk assessment standards instead of AS 3
 - AU sec. 350, *Audit Sampling*: requests for clarification regarding new requirements for sample sizes when nonstatistical sampling methods are used