

PCAOB Report

4th Annual NASBA International Forum

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The PCAOB's Agenda

- Enhancing Audit Relevancy, Transparency and Independence
 - Modernizing the auditor's reporting model
 - Increasing transparency about firm and engagement partner audit participation
 - Strengthening the role of audit committees
 - Strengthening auditor independence and professional skepticism
- Enhancing International Cooperation and Oversight
 - Strengthening PCAOB oversight of non-U.S. auditors and audit work
 - Actively supporting the work of the International Forum of Independent Audit Regulators (IFIAR)

Caveat

*The views expressed are solely my own,
and not those of the PCAOB, its other
members, or staff.*

ENHANCING AUDIT RELEVANCY, TRANSPARENCY AND INDEPENDENCE

Modernizing the Auditor's Reporting Model

- The financial crisis reignited debate over the value of the auditor's report
- An informal investor survey by the PCAOB's Investor Advisory Group found --
 - 45 percent of respondents believe the current audit report does not provide valuable information that is integral to understanding financial statements
 - 18 percent of respondents believe the audit report is of no use to them at all

Modernizing the Auditor's Reporting Model

- Other regulators are also addressing these issues
 - British House of Lords Report
 - European Commission's Green Paper
 - IAASB Consultation Paper

Modernizing the Auditor's Reporting Model

- Board Concept Release on Possible Revisions to Reports on Audited Financial Statements (June 21, 2011)
- Four alternatives -
 - Auditor's discussion and analysis
 - Required and expanded use of emphasis paragraphs
 - Auditor assurance on information outside the financial statements
 - Clarification of language in the standard report
- Next steps - Roundtable in September 2011

Increasing Transparency About Firm and Engagement Partner Audit Participation

- Participating firm identification
 - Many audits involve the work of several firms in different jurisdictions
 - Users are not informed about the roles these firms perform
 - Participating firms may be under different oversight regimes

Increasing Transparency About Firm and Engagement Partner Audit Participation

■ Partner identification

- In 2009 the Board issued a concept release on engagement partner signature
- In the IAG survey, 44 percent of investors thought the engagement partner should personally sign the audit report
- Identification of the engagement partner in the audit report may be an alternative to signature

Strengthening the Role of Audit Committees

- Sarbanes-Oxley Act put the audit committee at the center of the auditor–public company relationship
- The Board proposed a new standard on Auditor Communications with Audit Committees in March 2010 in order to --
 - Improve two-way communications
 - Focus discussion on audit strategy and significant risks
- The Board also wants to enhance audit committee understanding of PCAOB inspection reports

Strengthening Auditor Independence and Professional Skepticism

- GAO's 2003 Study on Mandatory Firm Rotation concluded that the PCAOB would require several years of experience to evaluate the need for rotation
- Eight years of PCAOB inspections findings suggest rotation should be revisited now
- Chairman Doty: "I am prepared to consider all possible approaches to address the incidence of audit failures – including whether audit firm term limits would help address the inherent conflict created because the firm is paid by the client."

ENHANCING INTERNATIONAL COOPERATION AND OVERSIGHT

PCAOB Oversight of Non-U.S. Auditors

- There are PCAOB registered firms in 88 countries. The Board has conducted 300 inspections in 33 jurisdictions
- We are, however, unable to inspect in most of Europe and in China
- The Board is in active negotiations with EU members and Chinese authorities to open doors to inspections
- We recognize that trust and cooperation between regulators with common goals is the key to fulfilling our mission

PCAOB Oversight of Non-U.S. Auditors

- Protecting investors when PCAOB cannot inspect
- PCAOB disclosure regarding the foreign inspections oversight program
 - Web site disclosure of countries where we cannot inspect and of the names of firms registered in these countries
 - Consider how to enhance investor ability to determine if unregistered firms participated in a particular audit
- No routine registration of additional firms based in countries where the Board cannot inspect
- Disclosure of firms that participate in multi-national audits

Actively Supporting the Work of IFIAR

- IFIAR – the International Forum of Independent Audit Regulators – was created in 2006
 - A vehicle for independent audit regulators from around the world to share ideas and assist each other in their oversight
 - IFIAR now has 38 members. The PCAOB representative is the vice chair
 - IFIAR is not a regulator

Actively Supporting the Work of IFIAR

- IFIAR focuses on the following activities:
 - Sharing knowledge of the audit market environment and practical experience
 - Promoting collaboration and consistency in regulatory activity
 - Providing a platform for dialogue with other international organizations that have an interest in audit quality
- Inspections workshops
- GPPC Working Group dialogue with firms
 - Group audits
 - The role of auditor skepticism
 - Revenue recognition auditing issues
 - The role of the engagement quality control reviewer

Conclusion

- During the coming year, fundamental issues that could significantly change the role of the auditor are going to be debated, both here and abroad.