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
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.