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**OFFICE OF THE CHIEF AUDITOR STANDARD-SETTING AGENDA**

**OCTOBER 2010**

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As part of developing the standard-setting agenda on an annual basis, the Office of the Chief Auditor ("OCA") takes into consideration multiple factors. In addition to continually evaluating the Board's interim standards and taking a priority-based approach in determining which interim standards need to be amended, the current standard-setting agenda has been significantly informed by the economic downturn and the disruption in the credit and financial markets. OCA has also taken into account the results of the Board's oversight activities of registered public accounting firms. For example, issues identified through the inspection of audits conducted during the economic crisis indicate that there is a need for the Board to address certain of its standards including, among others, quality control, fair value measurements, and the use of specialists. Additionally, the quality control, principal auditor, and auditor's reporting model standard-setting projects will consider challenges pertaining to the PCAOB inspection of accounting firms based outside the U.S.

OCA is working 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 standard as it relates to the auditor's responsibility to detect material misstatement due to fraud.

OCA will continue to take into consideration the work of other standards setters (e.g., FASB, IAASB), advice from the Standing Advisory Group, emerging issues, research, and solicitation of public comments. For example, OCA is closely

monitoring the work of the FASB and IASB accounting projects and potential need for new or revised auditing standards or staff guidance in response to the potential upcoming changes to U.S. GAAP and IFRS.

While working on these and other standard-setting projects, OCA has issued several 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.

Updates to the standard-setting agenda are determined based on the results of the PCAOB's oversight of registered public accounting firms, monitoring of the environment, consultation with the Board's Standing Advisory Group, and discussion with the SEC, among other factors. The table, followed by a brief project overview, presents the OCA current standard-setting agenda with key milestones.\*

\*The project milestones have been developed for planning and budgeting purposes and may change due to a variety of reasons. Specifically, the projected project milestones are contingent on the Board determining that the staff should pursue a standard-setting project in each area. If the Board determines 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 impact the projected milestones or could result in other priorities not on the agenda.

Project*	2010	2011				2012		
	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter
1. Risk Assessment, including fraud risk assessment	Pending SEC approval							
2. Communications with Audit Committees		Adopt final standard or re-propose standard for public comment		Adopt final standard				
3. Confirmation			Adopt final standard or re-propose standard for public comment		Adopt final standard			
4. Signing the Auditor's Report	Board consideration of next steps pending							

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5. Application of the Sarbanes-Oxley Act's Provision on "Failure to Supervise"	Board to consider whether to propose related rules or standards		Issue proposed rules or standards for public comment		Adopt final rules or standards			
6. Related Parties		Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		Adopt final standard	
7. Specialists	Issue proposed standards for public comment			Adopt final standards or re-propose standards for public comment			Adopt final standard	
8. Fair Value Measurements and Other Accounting Estimates			Issue proposed standards for public comment			Adopt final standards or re-propose standards for public comment		

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9. Part of the Audit Performed by Other Auditors (Principal Auditor)		Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		Adopt final standard	
10. Quality Control Standards, Including SEC Practice Section Requirements			Issue concept release for public comment			Issue proposed standard for public comment		
11. Going Concern	See discussion item #11 on page 8							
12. Subsequent Events			Issue proposed standard for public comment			Adopt final standard or re-propose standard for public comment		Adopt final standard

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13. Auditor's Reporting Model		Staff presentation to Board on results of research	Issue concept release for public comment	Hold roundtable		Issue proposed standards for public comment		
14. Audits of Broker Dealers		Issue proposed standards for public comment		Adopt final standards or re-propose standards for public comment		Adopt final standards		
15. Attestation Reporting Under Regulation AB	See discussion item #15 on page 9							

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### **Standards-setting Brief Project Overview**

1. Risk Assessment – The Board adopted a suite of eight auditing standards related to the auditor's assessment of, and response to, risk in an audit on August 5, 2010. The standards are pending SEC approval.
2. Communications with Audit Committees – The Board proposed the auditing standard for public comment on March 29, 2010. Comments period ended on May 28, 2010. The Board held a roundtable on September 21, 2010 and re-opened the comment period. The comment period ends on October 21, 2010.
3. Confirmation – The Board proposed the auditing standard for public comment on July 13, 2010. Comment period ended on September 13, 2010. The staff is analyzing the comments received and will discuss with the Board its views on how to address the comments.
4. Signing the Auditor's Report (Advisory Committee on the Auditing Profession to the U.S. Department of Treasury ("ACAP") Recommendation; Firm Structure and Finance Recommendation No. 6) – ACAP recommended that the PCAOB "[u]ndertake a standard-setting initiative to consider mandating the engagement partner's signature on the auditor's report." – The staff has analyzed the comments received on the July 28, 2009 concept release and discussed with the Board the staff's view. The Board's consideration of next steps is pending further action.
5. Application of the Sarbanes-Oxley Act's Provision on "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 highlights the scope of the application of Section 105(c)(6) and also seeks comment on concepts relating to possible rulemaking or standard-setting that might complement the Board's application of that provision. The comment period ends on November 3, 2010.
6. Related Parties – In response to issues identified during the inspection of accounting firms and comments received at previous SAG meetings, the staff is evaluating potential revisions to the related parties auditing standard.

7. Specialists – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, and comments received at previous SAG meetings, the staff is evaluating potential revisions to the specialist auditing standard.
8. Fair Value Measurements and Other Accounting Estimates – In response to issues identified during the inspection of accounting firms, lessons learned from the economic crisis, the comments received at previous SAG meetings, and FASB's proposed accounting standards on fair value measurements and financial instruments, the staff is evaluating potential revisions to the standards on fair value measurements and other accounting estimates.
9. Part of the Audit Performed by Other Auditors (Principal Auditor) – In response to issues identified during the inspection of accounting firms and comments received at the April 7-8, 2010 SAG meeting, the staff is evaluating potential revisions to the auditing standard.
10. Quality Control Standards, Including SEC Practice Section (SECPS) Requirements – In response to issues identified during the inspection of accounting firms and lessons learned from the economic crisis the staff is evaluating potential revisions to the quality control standards, including the SECPS requirements. The staff will discuss this topic with the Standing Advisory Group at the October 13-14, 2010 meeting.
11. Going Concern – In response to comments received at a previous SAG meeting, the staff is evaluating potential revisions to the going concern auditing standard. The staff also is monitoring the FASB's project on going concern. The timing and scope of the project is dependent on future action by the FASB.
12. Subsequent Events – In response to the comments received at the July 15, 2010 SAG meeting, the staff is evaluating potential revisions to the subsequent events auditing standard.
13. Auditor's Reporting Model (ACAP Recommendation; Firm Structure and Finance Recommendation No. 5) – ACAP recommended that the PCAOB "undertake a standard-setting initiative to consider improvements to the auditor's standard reporting model." The staff discussed this topic at the April and July 2010 SAG meetings. The staff is conducting research to ascertain and identify additional investor and user needs and plans to present its findings to the Board in the first quarter of 2011.



14. Audits of Broker-Dealers – The staff is evaluating potential revisions to the Board's auditing and attestation standards for audits of broker-dealers. The staff is also monitoring SEC rulemaking actions relevant to the auditor's responsibilities for audit of broker-dealers.
15. Attestation Reporting Under Regulation AB – Regulation AB, which addresses the registration, disclosure and reporting requirements for asset-backed securities, requires an attestation report by a registered public accounting firm regarding each servicer's assertion of compliance with established servicing criteria. In light of the SEC's rulemaking to revise Regulation AB, the staff is evaluating the Board's standards governing attestation reporting (e.g., AT 601) to ascertain what, if any, changes are needed.

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The PCAOB is a private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.