NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on June 21, 2007 that related to the discussion on the auditor signing the auditor's report which was part of a broader discussion titled "Panel Discussion - Engagement Team Performance." Related parties and accounting estimates and fair value measurements were also discussed during the June 21, 2007 meeting and are not included in the transcript.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Standing Advisory Group

Thursday, June 21, 2007

9:00 a.m.

The Army and Navy Club

901 17th Street, NW

Washington, DC

ORIGINAL

Joe Carcello.

MR. CARCELLO: I'll make a comment about this and then address my other comment. I think these questions are similar to what we've been talking about already. So to specify that the audit partner has to do some of these tasks and to provide no flexibility for specific circumstances, I think would probably be a mistake.

It is hard to disagree that the audit partner should be involved in considering fraud risk. I think that's pretty obvious. Imagine a situation where the audit partner had responsibility for accessing fraud risk, but if a senior manager on the engagement was a CPA, CFB, had prior experience with the FBI, wouldn't he or she be a better fit to take the lead role?

At the end of the day, the partner has responsibility. But in that particular case, the senior manager may have better expertise. It may make sense for him or her to take the lead role there.

The second point that I make, which is not really teed up in any of the questions, I'm curious if you've even batted around a discussion of this:

We're talking about engagement team performance. Lynn correctly points out situations where he's sitting in Broomfield, Colorado and recognizes problems with published financial statements and you question how does that happen.

At the end of the day I think the real concern here is how you make engagement team's performance better. One thing that I know has happened in some foreign countries -- I'm far from an expert on this, others may know more -- in some foreign countries the partner has to sign his or her name alongside the firm's signature.

And if you look at the behavioral literature, there's some evidence to suggest that that additional level of personal accountability, public accountability has an effect. What would be interesting to look at -- I don't know if you have the capability to do this -- although you have the ability to commission research -- is there any evidence that when foreign jurisdictions change the regime from a situation where the partner didn't sign his or her name to where they did, is there any evidence that audit quality improved?

And if there's evidence that audit quality improved, it is probably worth thinking about here in the United States. If there is no evidence that audit quality improved, then you probably let the idea drop.

MS. RIVSHIN: Lynn Turner?

MR. TURNER: On the second question about -- based on size and all, I think the answer is yes. I think there is a big difference between auditing a General Electric and the skill sets that it takes amongst the engagement team to audit that type of multinational broad based company, versus someone that's auditing a $50 million, $20 million a year company. It is just different. The skill sets and the coordination and the administration and the ability to keep it together on those two are different.

Sometimes it is a small company that's harder; and sometimes it is a large company. But I actually don't think engagement teams move back and forth in between those two environments all that well.

I think we saw some of that in the first year of the internal control testing. People weren't able to move up and down in company size and tailor it the way it should be.

So I think this needs to be dealt with. Maybe the best place to deal with it is in the firm's own manuals themselves. But I think there has to be recognition of if you have two different skill sets when you're managing the audits of those two different sized companies, they just aren't the same and the issues and complexities vary dramatically.

I would certainly agree with or tee up the issue Joe has. I personally think that it does make a difference from a behavioral aspect, and that's really what we're talking about here, because we're talking about performance if a partner had to put their own name on the report or not. And I think if any partner had a qualm about putting their own name on a report, they ought to be thinking about whether they're willing to sign with the firm's name.

And I'd certainly encourage you to think about that. I'm a firm believer the firm partner ought to be willing and should put their name on a report to --

MS. RIVSHIN: Wes Williams?

MR. WILLIAMS: I agree with the statement Lynn made. I have a little different take on it. I think the audit standards need to be scaleable based on the size and complexity of the entity but not so much based on the size of the audit firm itself.

I'm going to pick up on a theme that is going to come through here. We have to look at the competency of the audit teams and the competency of the firms themselves. I think these are accepted by the board in the quality control standards they have adopted which address the firm competencies as well as the partner in charge competencies.

So it kind of goes back to the whole theme of getting the right person on the right job.

MS. RIVSHIN: Bob Tarola?

MR. TAROLA: Just on the point Joe and Lynn were making about the psychological difference when signing one's personal name and signing a firm's name. I used to sign off in the name of a firm. Now I'm certifying financial statements under SOX in my personal name. I would like to believe that I would have -- that it wouldn't have made a difference, but it does. It is psychologically different.

MS. RIVSHIN: Jeff Steinhoff?

MR. STEINHOFF: I'm in an organization where we sign off own name. If I'm signing my own name, I check everything over a hundred times. And if I'm sending it out for the Comptroller General to sign his name, I check it over 200 times.

I think it does make a difference, although I don't think for any one moment that signing a firm name means that the partners that are doing that aren't trying to do a very good job. Because the firm name is very important to them.

So I'm not sure at what level it makes a difference; and I think they still bring that professional pride and they still feel they're responsible and accountable for it.

MS. RIVSHIN: Vin Colman?

MR. COLMAN: I didn't want to let that go. I appreciate those final comments. It may affect behavior. I don't know. I haven't done a study. I have no idea.

I understand there's common practices in Europe and whatever. I can assure you, I signed opinions for 25 years. Here you're signing that opinion, all right, part of it is your firm. But part of it is if there's an issue, I mean, everyone knows who signs that opinion. Look at any enforcement release, look at -- when there's an issue, okay, even a PCAOB review, it is very clear who was responsible for the work that is performed, ultimately responsible for the work performed on that engagement.

So to say that writing it will have a significant change in an engagement partner's behavior, I mean I'm not sure. It may. But I would tell you I think you'd be not fully understanding -- I think particularly in the last five years -- as Randy said, there's been a significant change in the last five years with respect to the accountability with respect to what the engagement partners feel and do. I just don't want that to go unsaid.

MS. RIVSHIN: Jeff Carcello?

MR. CARCELLO: I agree with Vince. The overwhelming majority of partners take the responsibility of signing the firm's name very seriously. All I was suggesting was that it might be worth thinking about.

To the extent there is data available in foreign countries, it might be worth considering. I'm not suggesting for a moment that most partners are signing the firm's name without being comfortable they are doing the right thing.

MS. RIVSHIN: Any other comments? I know Randy you had your tent card up at one point and put it back down.

MR. FLETCHALL: Only because Bob Kueppers raised the issue of quality control. I think in this whole area we talk about what an audit partner or the lead partner is responsible for. Do you have to figure out in a large firm, there are quality control systems in place. That partner should be able to rely on those or else we will have very inefficient systems.

When it comes to in a large firm, coordinating a large audit around the world, you can't expect that lead partner to have trained everyone on that team, which you can do if you are in a small firm doing a handful of audits.

No one is saying the lead partner is not in a sense very responsible for that audit opinion that he signs, either internally or on an opinion that would have the firm's name also; but you really do have to allow that partner to rely on the firm's quality control system around many things like independence, training, competency. You just couldn't have each person do it. Keep that in mind if you want to have a prescription.

John, when you read ISA, you can read that and say this sounds like the partner is supposed to do this. Sometimes the firm does it. At the end of the day, both the firm and the partner are going to be held responsible if there's a problem. You might as well recognize that.

MS. RIVSHIN: Any other comments?

Zoe-Vanna.

MS. PALMROSE: Since we're beating this issue to death, I'll add my thought. That's from the users, the investors in the marketplace. One of the aspects of -- that I had always thought with the firm name being on the opinion was that's what it meant from a user perspective, the investors cared that it was the firm. So another model has to actually ask what is the usefulness of that information to the marketplace also.

MS. RIVSHIN: Lynn Turner?

MR. TURNER: I'd turn around and challenge you on that, Zoe-Vanna.

MS. PALMROSE: It wouldn't be the first time you have.

MR. TURNER: And I can guarantee it

probably won't be the last.

We sit here and tell public companies it makes a difference to them. They used to sign with the general signoff page on a 10-K and on the Qs. Now we've got them doing this very specific certification, and all the firms sitting around the table here supported those CEOs and CFO having to certify to the accuracy of the financial statements.

I find it astounding that firms would say for public companies and a CEO and CFO they have to do this because we need their butt on the line. But for us as audit partners, it doesn't make a difference. That's just unfathomable that you think people act two different ways like that.

I think absolutely if we're going to force the CEO and CFO to put their name on the line, then we ought to be turning around and putting the audit partner's name on the line. If they have a problem with doing that, then I as an investor, I do want to know that because that does give me informational content.

MS. RIVSHIN: Zoe-Vanna?

MS. PALMROSE: The question is not whether your name is on the line or not. It is what it means, the mechanism by which it occurs. It is important to recognize these are two different settings; and what a signature means and what it signals. All I'm suggesting, Lynn, is it is probably important to think about the signals aspect of this, not just the laying your signature on the line per se.

MS. RIVSHIN: Damon Silvers?

MR. SILVERS: I found this last exchange very informative. I was sitting here trying to figure out what this debate is about. Now I know.

It seemed to me the issues teed up here were issues that would be very difficult. I mean if people aren't doing their jobs, don't understand what they are, how are you going to write a standard that is going to fix that? Is it true they don't understand what their jobs are?

I was baffled by it. Now I understand what it is about. It is about whether or not you sign a person's name and the firm's name or just the person's name, or just the firm's name. It strikes me that really this can't possibly be something people are seriously arguing about.

It is useful from the perspective of investors of, not just from a punitive kind of approach but from an informative approach, to have both. The signaling is that A, there is a firm here and that the person who was signing it is signing it with the full backing and support of the firm and the investor can rely upon the firm and its own procedures and that there is an actual human being that one could -- if one wanted to talk to -- about what this means.

That strikes me as sort of plain and simple and shouldn't be that terribly controversial. But again I thought I was missing something for a while. Maybe I'm still missing something.

MS. RIVSHIN: Jeff Carcello.

MR. CARCELLO: There is another potential benefit of having the partner sign that just occurred to me. There is extensive literature in academia on expertise. It was alluded to this morning by Bill

Messier.

The earlier work on expertise basically found that firms that do more work in a particular industry do high quality audits. As everyone knows, audits are done by audit teams, even though the firm signs it. More recent work done primarily like Gerry Francis and some of his colleagues looks at the quality at the local office level and finds that there's higher quality if the local office has more expertise in whatever the industry is of the particular client.

The really interesting question would be is the quality higher; and as we presume it would be if the engagement team -- primarily the partner -- had more industry expertise.

If partners have to sign, it would not take very long and there would be a database of every public company at least that they serve; and you could start measuring expertise at the individual partner level in industries.

And then you could track whether or not that translated into higher audit quality.

MS. RIVSHIN: Dick Dietrich?

MR. DIETRICH: Like Damon, maybe I'm beginning to understand this issue. I wanted to refer back to a point Bob Kueppers made. I don't mean to be critical of your point. I think he raised the point -- which is important -- about the idea that once in a while it is possible that an audit partner could get off the reservation with respect to his or her firm.

If so, what is the responsibility of the firm? How do we build mechanisms to minimize the likelihood that that could happen?

The discussion about how many people are going to sign this report, one possibility would be to think about the idea that the partner is signing the report on his or her behalf as well as the firm's, but the concurring partner also could sign, representing that the firm's quality controls are in place and that the concurring partner is really signing on behalf of the firm, almost against the partner.

That's a very provocative idea, so it

probably isn't worth much. But we have six minutes. I thought I'd say something.

MS. RIVSHIN: Sam Ranzilla?

MR. RANZILLA: I have no idea what we're talking about now.

I can't speak for all of my audit partners. I surely can't speak for any that aren't in my firm. But I can speak for myself. I can tell you unequivocally that when I sign KPMG, and if I sign my name below it, it would make no difference. It would not change my behavior one iota if my name went underneath KPMG and I believe that most of my partners feel the same way.

To answer Dick's interesting -- it gives some -- context around the quality control system. I think it is important to keep in mind that any quality control system has a cost/benefit relationship. Just like a company's internal control system cannot from a cost/benefit perspective ever support absolute assurance around the quality of the information; and the same is true with our system; so we have built -- again I can only speak for my firm -- we believe we've built a quality control system that provides reasonable assurance about the quality of our audits.

Does that mean we are going to be 100 percent accurate, that we will never have some audit issue? Absolutely not.

We could do that. We get out financial statements within a decade. And we -- there would no problems with that. But that would be the kind of -- that's the counterbalance, just like a company goes through when they look at their internal controls. They make cost/benefit analysis. The same thing is true with respect to quality control systems at accounting firms.

MS. RIVSHIN: Gaylen Hansen?

MR. HANSEN: I appreciate the comments, Sam. I'm the same way. When I sign my firm name, it means something to me. But I think most of the people sitting around this table and the people that we deal with that feel that way also. Unfortunately, there's others out there that it might mean more if they were signing their personal name.

I think the concept merits maybe exploration by the board.

I wanted to talk also, Vin mentions we always know who does what on the audit. Some of you may know I'm involved with state boards. We also have disciplinary matters. It is interesting when firms get in trouble and we bring them in. We see a lot of finger pointing. "I only did this. That person was responsible for that."

And you know, I think a certain minimum level of who is doing what might make some sense at some level, anyway, because that should never happen. We should always know who's responsible and the individuals involved should know what their responsibilities are.

MS. RIVSHIN: Craig Omtvedt.

MR. OMTVEDT: I would like to comment regarding Lynn's earlier comment. I can tell you as the CFO who has to sign financials, I have never yet had the view that the engagement partner should also have to sign. I would tell you that candidly, my own view is that this conversation is really a discussion of form over substance.

MS. RIVSHIN: Leroy Dennis.

MR. DENNIS: I want to point out -- again like Sam, I can't speak for everybody, every firm's quality control procedures. As it relates to signing the report, I agree it would make no difference in how I sign an opinion.

And I also would point out if you go into our methodology, there are literally hundreds of places where every engagement partner on the team signs. They initial every work paper. They sign each section twice. They sign an overall quality control review form. They sign off on significant adjustments that are past. They sign off on internal control areas, and an overall conclusion.

So there are umpteen places in a file where people sign. I don't think adding one more to the 10-K makes a big difference.

MS. RIVSHIN: Gaylen - you have anything else?

Thank you very much for the insightful discussion we just had. I also want to thank Bill