



CAQ Alert #2008-77 – November 7, 2008

IN THIS ALERT

[Emerging Issue – Audit Considerations in the Current Economic Environment](#)

[Feasibility of Audit Quality Indicators](#)

[Signing the Auditor's Report](#)

[Proposed Standards-Setting Activities](#)

[PCAOB Announces 2009 Standing Advisory Group Members](#)

DEAR CENTER MEMBERS

CAQ Highlights of the PCAOB's October 2008 Annual SAG Meeting and Announcement of 2009 SAG Members

The [Public Company Accounting Oversight Board](#) (PCAOB or the Board) held its annual [Standing Advisory Group](#) (SAG) meeting on October 22 and 23, 2008 in Washington, D.C. The SAG meeting agenda, briefing memos on the respective agenda topics including, [Emerging Issue – Audit Considerations in the Current Economic Environment](#), [Feasibility of Audit Quality Indicators](#), and [Signing the Auditor's Report](#), and archived [webcast](#) can be accessed by clicking on the respective links.

Below are highlights of the October 22-23, 2008 SAG meeting. For more information, refer to the CAQ's [detailed summary](#) on the October 2008 SAG meeting.

Emerging Issue – Audit Considerations in the Current Economic Environment

The first discussion of the SAG meeting was on Audit Considerations in the Current Economic Environment. The topics discussed were as follows:

Areas Identified by the PCAOB:

- Fair Value Measurement
- Other Than Temporary Impairment
- Credit Derivatives
- Going Concern
- Pensions/Other postretirement benefits
- Receivables
- Inventory
- Other Asset Impairments
- Deferred Taxes
- Disclosures

Additional Areas Identified by SAG Members Included:

- Adequacy of corporate governance
- Contingencies
- Guarantees that are problematic
- Certain aspects of control environment
- Risk that financial fraud may occur due to increased pressure/incentive
- Revenue recognition
- Restructuring
- Liquidity
- Contractual triggers
- Volatility estimates used in the determination of option grant fair value in stock based compensation

For more information on this topic, refer to the CAQ's [detailed summary](#) on the October 2008 SAG meeting.

Feasibility of Audit Quality Indicators

The discussion of the Feasibility of Audit Quality Indicators was broken into two parts: a general panel discussion open to the public; and private break-out sessions.

The general discussion included two speakers, Mr. Richard Fleck, Partner of a major law firm, Chair of the [Auditing Practices Board](#), and Director of the United Kingdom [Financial Reporting Council](#) (FRC); and Damon Silvers, member of the [Treasury Advisory Committee on the Auditing Profession](#) (ACAP or the Committee) and also a SAG member. During the general discussion the panel provided background information on audit quality, including:

- An overview of the ACAP recommendation relative to this topic
- A review of selected academic research on audit quality
- Key points from initiatives on audit quality by the UK FRC and the Transparency Report required by the EU's Eighth Directive

After the panelists' remarks, SAG members had an opportunity to ask questions and participate in a discussion with the panel.

Following the general panel discussion, the SAG members broke out into three groups to consider the Committee's recommendation and discuss various topics pertinent to the development of key indicators of audit quality and effectiveness from the perspective of investors, issuers, and auditors. On

the second day of the meeting, a leader from each break-out group summarized the results of the break-out sessions.

For more information on this topic, refer to the CAQ's [detailed summary](#) on the October 2008 SAG meeting.

Signing the Auditor's Report

The third topic on the agenda was the mandating of engagement partner signature in the auditor's report. This discussion was led by the following three panelists:

- Janice Hester Amey, CalSTRS
- Jean Bedard, Bentley College
- Robert Kueppers, Deloitte LLP

The three panelists opened the discussion by briefing the SAG members on their views as they pertained to this topic.

During this discussion the PCAOB asked the SAG members to identify the pros and cons of mandating the engagement partner signature on the auditor's report. The SAG members discussed their views for and against mandating the engagement partner signature.

For more information on this topic, refer to the CAQ's [detailed summary](#) on the October 2008 SAG meeting.

Proposed Standards-Setting Activities

To conclude the meeting, the Board staff reported on their standards-setting accomplishments during the past year, provided an overview of the Board's current issues of highest priority, and other matters that could potentially impact the Board's priority list. Subsequent to their presentation, the floor was opened to the SAG members for discussion.

Priorities as of October 2008

The following are matters that the Board expects to give significant attention to during the next twelve months:

- Adoption of the Engagement Quality Review Auditing Standard
- Adoption of Seven Auditing Standards Related to Risk Assessment
- Concept Release on Fair Value and Specialists – End of 2008

- Proposed Auditing Standard on Confirmations – Early 2009
- Proposed Auditing Standard on Related Parties - 2009
- Finalize Guidance for Auditors of Smaller Companies relating to AS No. 5 - End of 2008
- Concept Release on Action Plan for Review of Interim Standards - Early 2009

For more information on this topic, refer to the CAQ's [detailed summary](#) on the October 2008 SAG meeting.

PCAOB Announces 2009 Standing Advisory Group Members

On October 30, 2008, the PCAOB [announced](#) eleven new appointments and three re-appointments to its SAG for the 2009 - 2010 term. The SAG's purpose is to advise the Board on the establishment of auditing and related professional practice standards. The SAG consists of 36 individuals with expertise in a variety of fields, including accounting, auditing, corporate finance, corporate governance, and investing in public companies. The Board has also granted six organizations observer status with speaking rights at SAG meetings, which include the [Auditing Standards Board](#) of the American Institute of Certified Public Accountants, the [Department of Labor](#), the [Financial Accounting Standards Board](#), the [Government Accountability Office](#), the [International Auditing and Assurance Standards Board](#), and the [Securities and Exchange Commission](#).

The new two-year terms will begin in January 2009. The Board solicits nominations and re-nominations annually. For a list of the 2009 SAG appointments, reappointments and current members, please refer to the [PCAOB's website](#).

Other Related Resources for Auditors:

- | | |
|------------------------------------|--|
| CAQ Alert #2008-70 | PCAOB Issues Briefing Memo for the October 2008 SAG Meeting's Emerging Issues Discussion, October 22, 2008 |
| CAQ Alert #2008-67 | PCAOB Announces October 2008 SAG Meeting, October 17, 2008 |

[Back to top](#)

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