Proposed Auditing Standards: The Theoretical Approach to Assessing Their Impact

Moderator
Paul Beswick, EY

Panelists
Sara Lord, RSM US LLP
Zoe-Vonna Palmrose, University of Southern California
Christian Peo, KPMG LLP
Dave Sullivan, Deloitte & Touche LLP
PCAOB Standard Setting Process

Understand Current or Emerging Audit Issues
- Obtain intelligence on/identify new, current, or emerging audit issues
- Determine whether to advance issue to research agenda

Research Projects
- Research potential issue, taking into account the problem and possible solutions
- Determine whether to advance issue to standard-setting agenda

Standard-Setting Projects
- Develop proposed standard or amendments (rule text) & proposing release
- Resolve policy considerations & refine the solution
- Adopt final standard and submit to the SEC for final approval
Current PCAOB Research Projects

- Quality Control
- Data and Technology
- Other Information/Non-GAAP
- Non-Compliance with Laws and Regulations
JOBS Act Section 104 amends SOX Section 103

Any additional rules adopted by the Board after the date of enactment of this subparagraph shall not apply to an audit of any EGC, unless the Commission determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors and whether the action will promote efficiency, competition, and capital formation.
PCAOB’s Process for Preparing Economic Analysis

• Consider the **need** for regulatory intervention (i.e., defining the problem);
• Describe the **baseline** (i.e., the world without the proposed standard or rule);
• Describe **reasonable alternatives** to addressing the problem; and
• Identify impacts including the **costs and benefits** of **both** the proposal and the alternatives and any **unintended consequences**.
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Objective of PCAOB Post-Implementation Reviews

To evaluate the overall effect of a rule or standard, after a reasonable period of time has passed since its effective date, which includes:

- Evaluating whether a rule or standard is accomplishing its intended purpose, as identified in the rulemaking release;
- Identifying, wherever possible, costs and benefits;
- Identifying unintended consequences.

- Based on interviews and comment letters, audit quality has improved
- On average, EQRs spend more time performing reviews
  - 28% increase (16 hours per engagement) for audits performed by large domestic audit firms
  - 23% increase (4 hours per engagement) for audits performed by small domestic audit firms
- AS 1220 is not associated with an increase in audit fees
- Audit firms and EQRs have made changes to their EQR practices
  - But factors other than AS 1220 may have caused these changes, including PCAOB inspections
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