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**San Francisco, CA**

August 11, 2019



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# Proposed Auditing Standards: The Theoretical Approach to Assessing Their Impact

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**Moderator** Paul Beswick, EY

**Panelists** Sara Lord, RSM US LLP

Zoe-Vonna Palmrose, University of Southern California

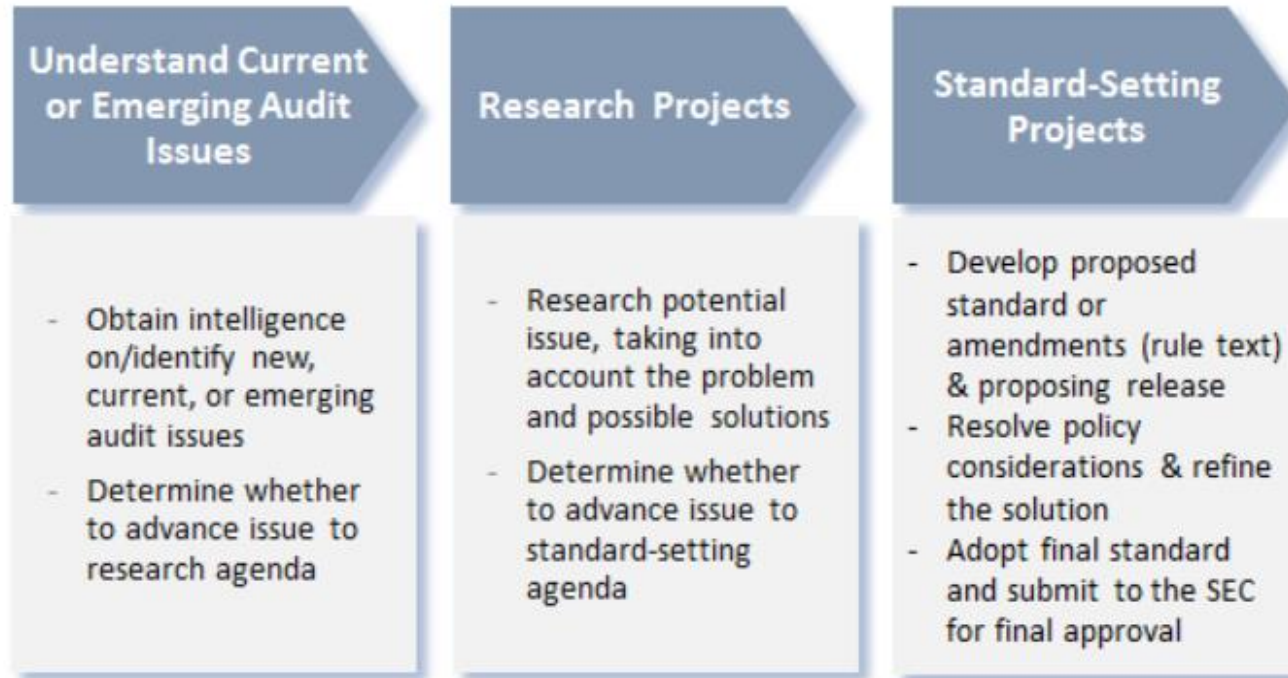
Christian Peo, KPMG LLP

Dave Sullivan, Deloitte & Touche LLP

# PCAOB Standard Setting Process

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# Current PCAOB Research Projects

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- Quality Control
- Data and Technology
- Other Information/Non-GAAP
- Non-Compliance with Laws and Regulations

# JOBES 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**.

# For Additional Academic Perspective on Economic Analysis of Auditing Standards

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Nolder, Christine, and Zoe-Vonna Palmrose. “Economic Analysis of Proposed PCAOB Standards: Finding a Path Forward.” *Accounting Horizons* Volume 32, No. 2, 183-200 (June 2018)

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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.

# Summary of Findings of Post-Implementation Review of AS 1220: “Engagement Quality Review”

- 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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