



U.S. Securities and Exchange Commission

Speech by SEC Staff: Remarks before the 2007 AICPA National Conference on Current SEC and PCAOB Developments

by

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Introduction

Good afternoon! My primary responsibility at the SEC is working on international auditing matters with fellow securities regulators outside of the US through the work of IOSCO, the International Organization of Securities Commissions; particularly the work of IOSCO Standing Committee No. 1 on Multinational Accounting and Disclosure that is chaired by Julie Erhardt, SEC Deputy Chief Accountant.

IOSCO Standing Committee No 1 (SC1) is one of the five standing committees of the IOSCO Technical Committee, a committee of Chairman and Commissioner-level individuals principally from the securities regulatory bodies in the world's most developed capital markets. Standing Committee No.1 is a subgroup of the Technical Committee composed of Chief Accountants, Deputy Chief Accountants and other staff from both Technical Committee jurisdictions and emerging market jurisdictions. There are currently nineteen members in SC1, and the Committee operates on consensus.

I am here today to inform you about several international initiatives that are underway to encourage improvements in audit quality.

With respect to IOSCO, in addition to the usual SEC disclaimer, I must also say that my remarks today are my own and do not necessarily represent the views of IOSCO or of any of its members.

IOSCO Roundtable on Audit Quality

Investors rely on the integrity of public companies' financial statements in making investment decisions. Securities and companies laws throughout the world vest in auditors the essential role of providing assurance on those financial statements. The quality of audits and audit opinions on financial reports are crucial to investors' confidence in credible and reliable financial information. Without securities regulators requiring publicly listed companies to have audited financial statements, the audit industry could be quite different today. IOSCO has a key interest in audit quality and is examining significant issues impacting audit quality.

On June 1 this year, IOSCO held a day-long roundtable on audit quality focusing on three key areas:

- Evaluating the External Audit Model in Today's Environment;
- Potential Effects of Audit Firm Concentration on Audit Quality; and
- Impacts of Auditor Liability on Auditor Behavior and Audit Quality

Panelists and participants in the Roundtable included representatives from the financial analyst and investor community, regulators, public companies and audit firms.

IOSCO is currently considering a long list of ideas, suggestions and possible follow-up actions items identified at the roundtable. For example, examining whether the current assurance framework meet the needs of investors; call for greater transparency into global network firms' governance structures, and should auditor provide assurance on business performance matrices?

The video clip and transcript of the roundtable are available on IOSCO's website for public access¹.

IOSCO's Interest in International Audit Standards

One of the key drivers of audit quality is high quality auditing standards. Auditing standards play a critical role in the protection of investors within each country's domestic securities market and are an important part of a country's securities regulatory system. Securities regulators have an important responsibility to promote auditing standards that are responsive to the need for investor protection. As stated in the November 9th statement I'll discuss in a moment, IOSCO is therefore of the view that development of high quality international-accepted auditing standards is beneficial to the global market place.

International Auditing and Assurance Board

The international Standards on Auditing (ISAs) are set by IAASB, the International Auditing and Assurance Board, under the auspice of IFAC, the International Federation of Accountants. There are eighteen board members of which ten are nominated by the IFAC member bodies; three public members representing the public interest, and the remaining five members are nominated by the Transnational Auditors Committee. IAASB's standard setting process is subject to independent oversight by a Public Interest Oversight Board (PIOB). The IAASB also receives input from a consultative advisory group, a stakeholder group, of which IOSCO is a permanent member, offering advice on an ongoing basis.

The overall structure and process for international audit standards setting is also under the eye of an organization called the "Monitoring Group". IOSCO is a founding member and the chair of this group, which also includes representatives from the Basel Committee on Banking Supervision, the European Commission, the International Association of Insurance Supervisors, and the World Bank, and also includes an observer from the Financial Stability Forum. Representatives from the International Forum of Independent Audit Regulators (IFIAR) have also participated in recent Monitoring Group meetings. The Monitoring Group worked with IFAC to establish several reforms in 2003 and continues to monitor the overall operation of the reforms including the governance and standard setting process of the PIOB and IAASB. At a future date, set under the terms of the reforms to be five years after the formation of the PIOB which occurred in 2005, the Monitoring Group is to conduct a review of the effectiveness of the reforms.

IAASB Clarity Projects

Let me provide a quick overview of IAASB's Clarity Project. The IAASB Clarity Project is a major, multi-year project that requires significant resources and effort on the part of the IAASB. The project started with the modest goal of agreeing on writing conventions that would make auditors' professional judgment abundantly clear — identifying auditors' obligations and rewriting "present tense" sentences so that it is clear what the auditors are required to do in each standard. Over time, the Clarity Project has evolved to include a complete reengineering of the structure and format for writing ISAs and the IAASB is presently redrafting the entire body of ISAs using the new drafting conventions. Each clarified ISA will be structured into three sections: Objectives, Requirements and Application Guidance. In total, approximately thirty-six standards are to be redrafted, exposed, and finalized by the end of 2008.

Needless to say, with such a volume of standards projects underway, the Clarity Project has been a major focus of the international regulators' attention over the past two years. The IOSCO SC 1 Auditing Subcommittee, of which I have the privilege to coordinate its activities, has held face-to-face meetings ten times this year around the world to review and discuss

proposed standards.

IOSCO Statement on International Auditing Standards

On November 9, IOSCO issued a public statement on international auditing standards to provide recognition of the importance of high quality international auditing standards and to note the work of the IAASB and PIOB. IOSCO's statement also mentioned its consideration of possible future endorsement of ISAs for cross-border purposes. The interest is high for encouraging further improvement in the ISAs issued by the IAASB. At the same time, there is a need for caution as this IAASB work is still not complete and it is not yet known how the IAASB will respond to the all public interest comments that have been made by IOSCO and others regarding further improvements needed in ISAs. The full text of this statement is available on the IOSCO website²

Regardless of the conditions and form of potential IOSCO endorsement, I would like to emphasize that IOSCO's review of proposed international auditing standards focuses on the following:

- whether the standards are set with the public interest as a foremost consideration
- whether the standards are likely to contribute to high quality audits;
- whether the standards are comprehensive and sufficient in scope;
- whether the standards adequately cover all relevant aspects of the area of audit being addressed;
- whether the standards are clear and understandable; and
- whether the standards are written in such a way as to be enforceable by regulators.

Standards alone are not enough

Although IOSCO and others have expended major efforts to encourage the development of high quality auditing standards, I want to pause and note here that standards alone are not enough to assure audit quality. The emergence of audit oversight bodies in many countries also is likely to play a key role in determining whether standards are of high quality and consistently applied in practice around the world. Audit oversight bodies will be able to determine how auditing standards are applied in practice and drive auditor behaviors. Many of the IOSCO members are either audit oversight bodies themselves or have the oversight responsibility similar to SEC's oversight role of PCAOB. Audit firms, and auditor professional bodies, also have important roles to play in promoting audit quality. Education, employee training and development, and other recruitment and staffing policies all interact to provide a supply of high quality human resources to do audit

work. "Tone at the top" in an audit firm, and the emphasis placed on developing and executing effective quality control processes by leaders of the firm are all important.

This concludes my remarks. Thank you for your time.

Endnotes

¹ IOSCO Public Video, <http://www.iosco.org/library/index.cfm?section=pubvids>

² November 9, 2007 IOSCO Statement on International Auditing Standards, <http://www.iosco.org/news/pdf/IOSCONEWS109.pdf>

<http://www.sec.gov/news/speech/2007/spch121007lj.htm>

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