

APPENDIX O – SIGNIFICANT CHANGES FROM THE EXPOSURE DRAFT

1 On May 31, 2000, the Panel issued the Exposure Draft of its *Report and Recommendations*. The Panel received comments on the Exposure Draft from participants at public hearings (see Appendix N) and from 42 individuals and organizations that submitted letters of comment. The Panel analyzed all the comments, deliberated again many of its recommendations and made a number of changes to its report. This appendix describes the most significant modifications. In addition, the final report includes updated information, clarifications and editorial improvements that are not described below.

Executive Overview

2 Significant changes made elsewhere in the report are reflected in “Recommendations.”

Chapter 1 – Introduction

3 The discussion of “Benefits and Costs” has been expanded. Also, changes made elsewhere in the report are reflected in “The Panel’s Approach to the Project” and in “Chapters Containing Findings and Recommendations.”

Chapter 2 – Improving the Conduct of Audits

4 Several commentators noted that not all the recommendations seemed to be supported by the findings from the Quasi Peer Reviews (QPRs). The Panel added an explanation that its recommendations spring from a variety of sources (not solely the QPRs), and are intended not merely to suggest improvements resulting from perceived deficiencies, but also to foster wider use of “best practices” that the Panel identified (paragraphs 2.20 – 2.21).

5 Also, some questioned whether the Panel’s call for more definitive auditing standards meant that the Panel was suggesting that auditors use more checklists and rely less on their judgment. The Panel has clarified that its intention was that better guidance be developed to help auditors enhance their professional judgment, not that more checklists be designed, and has added an example of definitive guidance in an existing standard (paragraphs 2.23 – 2.24).

6 The recommendations to the Auditing Standards Board (ASB) for “Multi-location Audits” and “Assessing Control Risk” have been expanded to include additional consideration of the control environment in determining audit scope.

7 The recommendations to the ASB regarding “Analytical Procedures” now include developing guidance for relying on and documenting management’s explanations.

8 In “Going Concern Considerations,” the Panel has noted in its recommendation to the Financial Accounting Standards Board that an international accounting standard addresses the subject of going concern, and that an international auditing standard references that accounting standard.

9 In “Communicating with Audit Committees,” the Panel has deleted the recommendations in the Exposure Draft addressed to the ASB, since they are substantially covered by existing guidance.

10 A recommendation has been added to “Establishing Auditing Standards” that the POB review the ASB’s prioritization, timetable and process for addressing the Panel’s recommendations. The Panel also has offered observations to the POB and ASB on this activity.

Chapter 3 – Earnings Management and Fraud

11 Changes to this chapter include:

- A new section, “Consideration of Exposure Draft Comments on the Forensic-type Phase”
- A notation that all the audits reviewed in the QPRs were subject to SAS No. 82 (note 27 to Chapter 3)
- Clarifying references to the goal of “zero defects” (paragraph 3.27)
- Clarifications to the recommendation that the ASB develop a forensic-type audit phase, including an expanded discussion of the degree of additional audit effort in this phase, the use of the word “forensic,” the neutral concept of professional skepticism, the use of internal auditors, high-risk areas and procedural guidance for interim periods
- An extension by one year of the timetable that the Panel believes is reasonable for strengthening standards in this area
- An additional recommendation to audit committees requiring management to acknowledge in writing that it has the primary responsibility for preventing and detecting fraud

Chapter 4 – Audit Firms

12 A brief discussion of “Collegiate Education” has been added to “Professional Development.” The recommendations to audit firms under “Professional Leadership – The Tone at the Top” and “Personnel Management” have been expanded (but not changed).

Chapter 5 – Auditor Independence

13 “The Panel’s Process” in “Non-audit Services” has been updated for the SEC’s June 2000 independence proposals, and a footnote reference to the Independence Standards Board’s conceptual framework project has been added.

Chapter 6 – Governance of the Auditing Profession

14 In “Proposed System of Governance,” the recommendations in the Exposure Draft have been substantially reorganized for clarity. In some cases, those to whom the recommendations are addressed have been changed to better direct the recommendations to the parties most capable of implementing them.

15 The Panel has recommended that the POB, SEC, AICPA, SECPS and major firms promptly agree to a charter for the POB, noting that there are two matters in the August 22, 2000, draft charter that are still under negotiation. Upon the successful conclusion of those negotiations, the Panel believes the charter will result in a major step forward in the governance of the profession (paragraph 6.26).

16 The Panel expanded its recommendation regarding the POB’s oversight of the profession’s activities to include the standard-setting activities of the AICPA’s Professional Ethics Executive Committee that relate to audits of public companies (paragraph 6.23).

17 A recommendation has been added that the POB and state boards of accountancy determine how best to facilitate communications between them (paragraph 6.28).

Chapter 7 – International

18 “The Goal of Transparency” has been clarified to emphasize that the cooperative efforts of all those involved in the financial-reporting and capital-raising processes are required to achieve the goal. The Panel has added a concluding recommendation that the ASB and the International Auditing Practices Committee initiate a formal collaborative effort to harmonize auditing standards and achieve their global acceptance.

Chapter 8 – Looking Ahead

19 “The Information Demand” and “The Best People” have been expanded to acknowledge the potential for changes to the current accounting model and other challenges in today’s “new economy.”

Appendices

20 Appendices N (July 2000 Public Hearings) and O (Significant Changes from the Exposure Draft) have been added.

