



January 15, 2013

Mr. Martin F. Baumann
Chief Auditor and Director of Professional Standards
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 2006-2803

Re: PCAOB Standing Advisory Group Agenda 2013

Dear Marty,

CFA Institute¹ welcomes the opportunity to provide feedback on topics for the PCAOB Standing Advisory Group (SAG) to consider in the coming year. We support the PCAOB's efforts to improve auditing standards and its inspections in pursuit of its mission to protect the interests of investors and further the interests in the preparation of informative, accurate and independent audit reports. We also understand that the PCAOB's Office of the Chief Auditor has a very full standard-setting agenda with 15 on-going or possible projects to address audit risks and challenges. With this in mind, we believe that the two areas of primary focus for the SAG should be the following:

The Auditor's Reporting Model

CFA Institute has consistently supported the efforts of the PCAOB to improve the independent auditor's reporting model. We have long expressed the need to improve the Standard Auditor's Report (SAR) as a means of communicating important information to investors and other users regarding the audit of a company's financial statements. Advocating for significant expansions of the information contained in the SAR and other improvements continues to be the main audit standard setting priority of CFA Institute.

As the PCAOB proceeds with its intention to issue a Concept Release in the coming year, we believe that this topic should remain at the top of the SAG's agenda. We also encourage the PCAOB to coordinate their efforts with the International Auditing and Assurance Standards Board's (IAASB) and other global regulators regarding approaches to a revised SAR.

Regulatory Oversight and Enforcement

The recent release of PCAOB inspection findings of top tier US audit firms reveals an increase in audit deficiencies in 2011 (the most recent year under inspection). Specifically, in one report the PCAOB reported the following audit failure:

The inspection team considered certain of the deficiencies that it observed to be audit failures. Specifically, certain of the identified deficiencies were of such significance that it appeared that the Firm, at the time it issued its audit report, had failed to obtain sufficient

¹ With offices in Charlottesville, New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 108,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 139 countries, of whom nearly 99,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.

appropriate audit evidence to support its audit opinion on the financial statements and/or on the effectiveness of internal control over financial reporting ("ICFR"). In addition, one of the identified deficiencies, which occurred in an audit in which the Firm played a role but was not the principal auditor, was of such significance that it appeared that the Firm had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

We conducted a survey (copy of the report is attached) in September 2012 where we asked our members whether they thought the current regulatory oversight and enforcement of the independent audit was effective. Only 30% of the respondents indicated that it was effective.

In that same survey we asked whether the inspection reports issued by audit regulators need to be more transparent. The response was overwhelmingly in favor of more transparency (80% worldwide).

Further, as reported in the Financial Times on December 30, 2012:

The four largest international auditing firms are trying to persuade regulators that they are more vulnerable to negligence claims than they seem- as part of a broader campaign to stave off measures to dilute their market dominance.

As further reported, these audit firms are taking exception to the UK's Competition Commission's conclusion that the risk they face from professional negligence was actually low. Please consider and address whether large audit firms may have become too big to discipline for fear of further consolidating the audit industry and that they experience soft-glove enforcement as a result. Does this further enable the ability of these firms to routinely and aggressively block any needed reforms or other changes to their audit service requirements or business model? It seems investors and users of financial statements deserve, after many decades, a better audit product and that the focus for the primary regulator must be there, despite strong industry efforts to the contrary. This of course further illuminates the importance of the regulatory inspection process to the quality of the audit

CFA Institute believes that the importance of the independent audit to the investment decision making process combined with a continued rise in reported PCAOB audit inspection failures, suggests a more focused discussion on how the inspection and subsequent reporting process could be made more rigorous and transparent. The discussion should encourage SAG members to provide feedback to the PCAOB on how to strengthen enforcement outcomes, ensure a system with proper deterrence value and add earlier and greater transparency of PCAOB findings.

Thank-you for considering these SAG agenda topics and I look forward to working with you and your staff in the coming year. If you have questions please call me at +1.212.756.7728, or by e-mail at kurt.schacht@cfainstitute.org.

Sincerely,

/s/Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director
Standards and Financial Markets Integrity Division