

**STATEMENT OF KURT SCHACHT, CFA
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PCAOB ROUNDTABLE AUDITOR'S REPORT
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For several years now, CFA Institute has been a strong proponent of a new, more investor focused auditor's reporting model. We appreciate the opportunity to participate in the PCAOB's roundtable to address this, specifically in the context of smaller issuers. CFA Institute has been closely following the PCAOB's actions to enhance the standard auditor's report (SAR). Likewise, given CFA Institute's large global membership base of nearly 115,000, it has also been tracking the International Auditing and Assurance Standards Board's (IAASB) efforts to improve the information content of the SAR for organizations audited in accordance with International Auditing Standards. CFA Institute regards these two independent, but closely related efforts as a key priority for improving the quality and usefulness of audit communication and assurance on behalf of investors.

I will start with a brief summary of our positions on certain elements of the proposal. These key points are further explained in our comment letters issued to the PCAOB. I will then provide some remarks relating to audits of small or emerging growth companies. The following points summarize our views on the significant matters of proposed change:

Investor/User Support for Enhancement's to the Standard Auditor's Report - CFA Institute members have consistently supported efforts to enhance the quality, relevance and value of auditor reporting. In previous letters we noted that improvements are needed to advance a seriously outdated model for communication of important information to investors and other users regarding the auditor's professional examination of a company's financial statements. Today's world of professional investment analysis has evolved dramatically in terms of the speed, quality and richness of available information. And while significant efforts and costs go into an audit, investors are provided very little information in the current three paragraph report provided by the today's SAR. Through increased transparency, a revised auditor's reporting model would simply be evolving along with markets. In the view of CFA Institute, it will heighten user confidence in the audit process specifically and financial statements generally.

CFA Institute Surveys Support Enhancements - CFA Institute has conducted many surveys on this matter over the last few years and the results have consistently showed that our members consider the auditor's report to be very important. To be sure the simple, pass/fail nature of the current SAR does provide a useful snap shot. Yet, the survey findings also show that many respondents believe more specific information is needed about how the auditor reaches their opinion. For instance, these investors believe that the following should be addressed by the auditor in the SAR:

- Risk factors associated with measurement uncertainties in an entity's financial statements
- More information regarding auditor materiality.
- Discussion about management's critical accounting judgments and estimates, and key areas of risk.

It is clear from our surveys and discussions with our membership and other users that they are not satisfied with the current “bare-bones” report. Much more qualitative information is needed about the audit findings and process.

Support Retention of the Pass/Fail Model – CFA Institute supports retaining the pass/fail model as a component of the auditor’s report. This aspect of the report is valuable because it is brief, clear, consistent and comparable. It benefits those investors who want to quickly scan the report for departures from the unqualified opinion. But this has limited value to those desiring a more thorough and complete understanding of the audit findings and the audit process. Therefore this model should be supplemented with substantive informative enhancements such as the critical audit matters.

Support for Critical Audit Matters – CFA Institute supports the concept of critical audit matters. We believe that investors will be better informed about the audit provided these critical audit matters are entity-specific and avoid “boilerplate” language.

We think that the auditor’s professional judgment (i.e. subjective guidance) should be exercised but be bolstered by more objective requirements. A subjective approach might easily allow the artful avoidance of providing any additional information whatsoever to investors. We have a fear of the reverse Lake Wobegone syndrome, where all issuers suddenly become average and unremarkable from an audit perspective. Investors have been seeking specific information from the auditor for years, and giving more objective, prescriptive guidance is necessary to ensure that those matters are conveyed by the auditor.

In our previous comments to the PCAOB, we indicated that investors would benefit from the information contained in what is commonly referred to as the “audit completion document” wherein the auditor defines all significant findings and issues and incorporates this as a part of the audit files at the end of the audit. The essence of this would be for the auditor to report the most relevant and significant matters they confronted during the course of their audit. We point out that under this approach there would not be an increase in the audit scope or the need for additional procedures. Instead the auditor would simply report using information already contained in the audit completion document.

From a cost/benefit perspective enhancing the auditor’s report in this manner, should not result in a materially significant increase in the cost of audit services. In fact, we believe that there would be almost zero incremental cost.

Improvements to the Auditor’s Reporting Model Will Require a Cultural Shift- Investors’ needs should be paramount when considering revisions to the auditor’s reporting model. The PCAOB should set new requirements with a view toward providing transparency and the most pertinent information possible for investors.

For meaningful changes to be effective, the reporting mindset of the audit committee, company management, and independent auditors will need to undergo a cultural shift. The historical reporting relationship has tended to be viewed as the auditor reporting to the audit committee and company management, rather than as a communication to investors. Now the reporting considerations of the auditor should be directed to the user, since it is the users (i.e. investors) who foot the bill and approve the retention of the auditor, not management.

Summary of Views Related to Small and Emerging Growth Companies- In short we believe that there should be no differential treatment for small or emerging growth companies. Investors deploy capital resources to entities of all sizes and therefore expect that auditor communications/reporting should be required to inform them of the audit similar to large organizations—whether listed or non-listed. Those who oppose the requirements based on organization size suggest that the expanded reporting will increase audit costs, does not add any value to investors and could result in reporting delays. Some observations:

First, as it relates to cost. Given that much of the reporting should already be captured in audit planning, fieldwork and at the conclusion, much of what should go into the audit report will have already been captured. This would require no additional work. We recently reviewed the expanded audit reports issued under new standards in the United Kingdom for a number of large companies. These expanded reports were issued without additional delay despite the new changes. We believe that small and emerging growth companies could accomplish the same.

Second as it relates to additional costs. We note that it is the investors who are responsible for audit costs- not management – even if there were additional reporting costs, investors would not necessarily object provided that the information was of high quality and entity-specific.

Third as it relates to the presumption that the expanded reporting would cause confusion. Many investors are sophisticated readers of the financial statements including the auditor’s report. Professional investors in particular, who manage assets for millions of beneficiaries will be key consumers of this information and will not be confused by the information. All investors will potentially benefit where the SAR enhancements are written in plain English and in a manner that is focused on being a user communication, rather than a compliance exercise.

In closing, the PCAOB and its counterpart, the IAASB have an opportunity to make a real difference in the way independent auditor’s report to investors. It makes little difference whether these investors are deploying capital to large, medium, small or emerging enterprises. The information they seek is essential to their understanding of the audit –they pay for it – and it adds to their overall confidence in the financial statements. Without it, we are left with a historical industry practice that has failed to keep pace with the information needs of markets in this 21st century.

CFA Institute appreciates the PCAOB’s initiative in moving to change the auditor’s report. The proposal sets forth a vision and a workable path toward more useful and practical tools for finance professionals and investors. We fully acknowledge the transformational nature of this change after many years of auditor reporting practice. The temptation is to say it is tried and true practice and it is "good enough".

Investment management professionals are dealing with remarkable developments in the world of finance. The rather dramatic changes in terms of complexity and speed of information, accounting conventions, new investment products and services in the past decades, are all parts of the financial services industry that must improve and adapt. CFA institute and its members encourage the audit profession to take a new approach to their work as well.