

September 6, 2012

The Honorable Mary L. Schapiro
Chairman
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Schapiro:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's most recent performance review, titled Review of the PCAOB's Office of Research and Analysis. The Board's Office of Internal Oversight and Performance Assurance ("IOPA") conducted this performance review.

IOPA undertook this review to determine whether the PCAOB's Office of Research and Analysis has effective processes in place to support PCAOB program areas with analysis and risk assessment consistent with the Board's Strategic Plan. In addition, as you know, earlier this year, I established a staff-level review committee to conduct an assessment of ORA's structure and functions, including the allocation of the office's resources. I am pleased to report that that committee also recently completed its work and presented it to the Board in July.

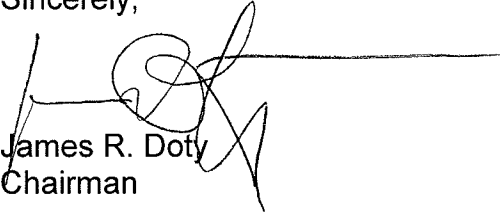
These reviews give the PCAOB and our new Director of ORA, who commenced work last month, important insights about ways to enhance the effectiveness of the PCAOB's research and analysis. I would also like to thank the Commission and its staff for their interest in research and analysis at the PCAOB and support for a deep examination of opportunities in this area. I believe the insights gained will deliver lasting benefits.

The Board intends to publish the attached summary on the PCAOB's Web site on or about September 14, 2012. You and your staff should feel free to contact me, the Director of IOPA, Peter Schleck (202-207-985), or the Director of ORA, Greg Jonas

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(202-519-4320), if you have any questions or would like any additional information about the review or ORA more generally.

Sincerely,



James R. Doty
Chairman

Enclosure: Review of the Public Company Accounting Oversight Board's Office of Research and Analysis (IOPA-2012-003), Sept. 6, 2012

cc: The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
The Honorable Daniel M. Gallagher

PERFORMANCE REVIEW

REVIEW OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S OFFICE OF RESEARCH AND ANALYSIS (IOPA-2012-003)

**INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE
SEPTEMBER 6, 2012**

INTRODUCTION AND OBJECTIVE

The Public Company Accounting Oversight Board's (PCAOB) *Strategic Plan* contains a number of objectives and strategies focused on the collection and analysis of data obtained from external sources as well as information gathered in the course of carrying out the Board's statutory mission. The *Plan* calls for the robust assessment of risk to guide inspections and investigations and to establish the standard-setting agenda.

Consistent with these themes, the Office of Research and Analysis (ORA) and its predecessor organizations have, since 2004, played a significant role in the development of methodologies, infrastructure, and products intended to support, primarily, the Division of Registration and Inspections (Inspections), but also the Board and other PCAOB program areas. ORA conducts research and analysis and makes the results of its work available in a variety of forms, including:

- Models for predicting accounting and auditing risks;
- Reports describing specific risk factors and indicators, such as referrals, planning memoranda, and various other risk profiles;
- Research notes on specific areas of interest or concern to the Board and the auditing profession; and
- Analysis based on ad hoc requests for information from Board members, as well as other PCAOB divisions including, Inspections, and the Office of Chief Auditor (OCA).

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The Office of Internal Oversight and Performance Assurance (IOPA) conducted this review^{1/} to determine whether ORA has effective processes in place to support PCAOB program areas with analysis and risk assessment consistent with the Board's Strategic Plan.

RESULTS IN BRIEF

Overall, Board members, Inspections staff, and other key customers^{2/} hold ORA's access to and knowledge of available data, and the technical capabilities of its staff, in high regard. Inspections, in particular, views "ORA data" as invaluable in helping to focus limited resources on high risk areas associated with firms, audits, and issuers.

IOPA also concluded, however, that ORA suffers from an "identity crisis" that manifests itself in a number of ways. For example:

- Certain ORA products are neither well understood nor considered particularly valuable by Inspections while others appear to be pushed toward, rather than requested by, the customer. In addition, Inspectors told us they often contain significant amounts of information beyond what is considered relevant and actionable.
- ORA's organizational structure includes overlap and potential inefficiencies.
- Costs and benefits associated with major ORA-driven projects, including a data warehouse initiative, have not been effectively communicated to those presumed to be end users.
- ORA's role and responsibility for conducting academic research – including research about costs and benefits of the PCAOB's regulatory activities – lacks definition.

These issues have arisen, in our judgment, at least in part, because the clarity of ORA's mission has not kept pace with its rapid growth. Since 2005, ORA has increased from a staff of 18 and

^{1/} This is a public summary of the report. The full report, prepared in accordance with Government Auditing Standards, has been issued to the Board. The full report includes a detailed discussion of the review objective, scope, and methodology.

^{2/} IOPA interviewed a total of 61 ORA customers, including 51 Inspections staff.

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expenditures of \$4.1 million to its current size of 31^{3/} staff members and a 2012 budget of \$8.7 million. ORA staff, including its former Director, responded in good faith to what they perceived as ever-increasing demands for research and analysis. ORA has not, however, been entirely successful in demonstrating that its mission, methodologies, scope, and limitations are sufficiently documented and understood by the Board and other customers. As a result, the ability for key stakeholders – including the Board and the Securities and Exchange Commission (SEC) – to fully judge ORA’s effectiveness and value in helping the PCAOB to achieve its strategic goals is in some doubt.

To some degree, IOPA’s findings echo conclusions reached during a review we conducted in 2006.^{4/} At that time, IOPA reported that aspects of ORA’s role and mission were not always well understood by its customers. We suggested that more fully defined research processes would help maximize the Board’s investment and allow a better evaluation of ORA’s success. Since 2006 ORA has, in fact, documented many of its procedures and methodologies and has developed some performance metrics. Based on our current work, IOPA concluded that a next logical step in ORA’s maturation could be the development of a charter, or similar governance document, which would broadly define ORA’s mission, key functions, customers, and expectations. We recommended that the Acting Director of ORA draft such a document for the Board’s discussion and consideration.

Concurrent with IOPA’s review, ORA was also being assessed by a special committee (Strategic Review Committee) appointed by the PCAOB’s Chairman. The Chairman chartered this committee in February 2012, tasking it to assess ORA’s structure and functions and study the effectiveness and efficiency of its operations. The Strategic Review Committee reported its interim results to the Board on May 18, 2012.^{5/} The committee’s observations and conclusions were largely consistent with IOPA’s findings.

^{3/} ORA had 31 staff members during the majority of IOPA’s review. However, 3 staff members, including the Director, resigned from the organization between March 2012 and May 2012. In addition, as of August 2011, ORA had an Academic Fellow on-board that is not included in this number. The Academic Fellow position had a pre-determined end date of July 2012.

^{4/} *Internal Control Review of the PCAOB’s Office of Research and Analysis*; IOPA-2006-003; September 12, 2006.

^{5/} According to the chair of the Strategic Review Committee, final results were presented to the Board on July 26, 2012.

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IOPA issued a draft of this report to ORA's Acting Director on June 27, 2012. In a letter dated August 14, 2012, the Acting Director provided commentary on a number of IOPA's observations. He neither agreed nor disagreed with the recommendations, electing to defer to ORA's next Director.