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**Report on**

**2012 Inspection of Deloitte & Touche LLP**  
**(Headquartered in New York, New York)**

**Issued by the**

**Public Company Accounting Oversight Board**

**May 7, 2013**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT**

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED**  
**FROM THIS DOCUMENT IN ORDER TO COMPLY WITH**  
**SECTIONS 104(g)(2) AND 105(b)(5)(A)**  
**OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2013-088

## 2012 INSPECTION OF DELOITTE & TOUCHE LLP

### Preface

In 2012, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Deloitte & Touche LLP ("Deloitte" or "the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").<sup>1/</sup>

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The inspection process included reviews of aspects of selected issuer audits completed by the Firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated defects in the Firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit practice.

The Board is issuing this report in accordance with the requirements of the Act.<sup>2/</sup> The Board is releasing to the public Part I of the report and portions of Appendix B. Appendix B includes the Firm's comments, if any, on a draft of the report. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

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<sup>1/</sup> The Act requires the Board to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers.

<sup>2/</sup> In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions.

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from October 2011 through February 2013. The inspection team performed field work at the Firm's National Office and at 31 of its approximately 66 U.S. practice offices.

#### A. Review of Audit Engagements

The 2012 inspection of the Firm included reviews of aspects of 51 audits performed by the Firm and reviews of the Firm's audit work on one other issuer audit engagement in which the Firm played a role but was not the principal auditor. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. One of the deficiencies relates to auditing aspects of an issuer's financial statements that the issuer restated after the primary inspection procedures.<sup>3/</sup>

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 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. The audit deficiencies that reached these levels of significance are described below.<sup>4/</sup>

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<sup>3/</sup> The Board's inspection process did not include review of any additional audit work related to the restatement.

<sup>4/</sup> The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or

A.1. Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm determined that certain of the issuer's divisions, while not significant individually, presented a reasonable possibility of material misstatement in the aggregate. In evaluating controls for these divisions, the Firm identified two entity-level controls ("ELCs"). The Firm's testing of these controls was insufficient, as follows.
  - One of the ELCs consisted of the issuer's internal audit ("IA") department's testing. The Firm failed to evaluate the timing and extent of such testing with respect to these divisions, and to determine whether IA had performed the procedures it had planned at the divisions.
  - The other ELC consisted of management's review of the divisions' financial results, which involved forming expectations for the current period based on certain prior-period amounts and investigating differences above an established threshold. The Firm failed to sufficiently evaluate the level of precision at which this review operated, in that it did not determine whether (a) the issuer's use of prior-period amounts to form its expectations and (b) the procedures the issuer used to investigate differences above the established threshold would have enabled the issuer to identify material misstatements in the significant accounts subject to this review. In addition, the Firm determined that the control over the accuracy and completeness of certain data used in the operation of this control was the internal audit ELC, the Firm's testing of which was deficient as described above.

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professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

- The Firm's procedures to test the individually insignificant divisions described above were insufficient, as it designed its substantive procedures based on a level of reliance on controls that was excessive due to the deficiencies in the Firm's testing of the ELCs that are discussed above. Specifically, the Firm relied on these ELCs when determining the number of individually insignificant divisions at which to perform its testing as well as when determining the extent, including sample sizes, of certain of its substantive procedures performed at these divisions.
- The Firm failed to sufficiently test the issuer's controls over the valuation of goodwill. Specifically, the Firm's testing of a review control designed to assess the reasonableness of the reporting units' fair values used in the analysis of the potential impairment of goodwill was insufficient, in that it failed to evaluate the criteria management used to perform the review. In addition, the Firm failed to identify and test any controls over the development of the reporting unit cash-flow forecasts and reporting unit carrying values that the issuer used in the goodwill impairment analysis.
- The Firm's procedures to test the existence of, and controls over the existence of, the issuer's inventory were insufficient. Specifically, in addition to the deficiencies in auditing controls with respect to the divisions that were not individually significant, for two significant divisions the Firm failed to test whether the issuer's cycle-count procedures addressed that (a) all inventory items were counted, and (b) that the cycle counts occurred as frequently as planned.

A.2. Issuer B

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures to test the valuation of goodwill for one reporting unit were insufficient. In evaluating the reasonableness of the assumptions the issuer used to estimate the fair value of the reporting unit, the Firm noted that two of the issuer's key assumptions were more favorable than the average of the results the issuer had obtained in the most recent five years. The Firm performed separate sensitivity analyses with respect to

these two assumptions, and determined that the point at which the fair value of the reporting unit would be below the recorded value was, for each assumption, above the issuer's average results for the most recent five years. The Firm concurred with the issuer's determination that goodwill for the reporting unit was not impaired, without evaluating whether these two assumptions were reasonable in light of the issuer's performance over the past five years and without performing any analyses to evaluate the sensitivity of changes to these key assumptions on a combined basis.

- In order to value certain investment securities, the issuer obtained prices from an external pricing service. The Firm failed to perform sufficient procedures to test the operating effectiveness of controls over the valuation of those securities. Specifically –
  - The Firm's testing of a control over the prices obtained from the pricing service was insufficient, in that the Firm (a) failed to test the aspects of the control related to the issuer's evaluation of price movements over established thresholds and (b) failed to sufficiently test the aspect of the control related to verifying that pricing data was obtained for all of the applicable investment securities, as the Firm's testing was limited to inspecting the pricing data on certain individual reports without evaluating the operation of that aspect of the control.
  - The Firm failed to sufficiently test a review control over the valuation of these securities. Specifically, the Firm's procedures to test this control were limited to obtaining evidence that the review had occurred, without evaluating whether the control operated at a level of precision that would detect material misstatements.

A.3. Issuer C

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The issuer capitalized a portion of the costs of the compensation of certain members of its senior management. The Firm's testing of the design effectiveness of controls over the capitalization of these costs was insufficient, as the Firm failed to evaluate whether those controls met the issuer's control objectives related to the issuer's policy for capitalizing compensation costs.
- The Firm failed to perform sufficient procedures to test a review control that it had selected over the valuation of certain long-lived assets. Specifically, the Firm's procedures were limited to inquiring of the control owners, obtaining certain documents used in the performance of the review, and inspecting evidence that such reviews had occurred, without evaluating whether the control operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to test controls over the accuracy and completeness of certain data that the issuer used in connection with the operation of the control.
- The Firm's procedures to test the capitalized compensation costs of certain of the issuer's senior management and the valuation of certain long-lived assets were insufficient, as it designed its substantive procedures based on a level of reliance on controls that was excessive due to the deficiencies in the Firm's testing of controls that are discussed above. Specifically, the Firm limited its substantive testing of capitalized compensation costs to inquiry and high-level analytical procedures, and it selected fewer long-lived assets for valuation testing.

A.4. Issuer D

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The majority of the issuer's revenue was derived from multiple-element arrangements, and the issuer divided its customer base into several pricing classes for the purpose of determining the values of the various elements subject to these arrangements. The Firm failed to identify that the controls it tested were not designed to appropriately evaluate whether the issuer had established vendor-specific objective evidence ("VSOE") of

the value for each of the issuer's defined customer-pricing classes because, in evaluating pricing, the issuer grouped transactions from multiple customer-pricing classes.

- The Firm's substantive procedures to test revenue related to certain multiple-element arrangements were insufficient, in that it failed to appropriately test whether the issuer had established VSOE of the value for each of the issuer's defined customer-pricing classes. Specifically, in evaluating pricing, the Firm tested transactions at an aggregated level and at the level of individual transactions, but not at the level of the issuer's customer-pricing classes.

A.5. Issuer E

In this audit, the Firm failed to perform sufficient procedures to test the general component of the allowance for loan losses ("ALL"), a significant component of the ALL. The issuer used the actual losses for the previous twelve-month period to determine all but a small portion of the general component of the ALL. The Firm, however, failed to test, beyond inquiry, certain information that related to the timing of the issuer's loss experience and that was relevant to the issuer's determination that the use of a twelve-month period was appropriate.

A.6. Issuer F

The issuer depreciated certain groups of long-lived assets over estimated useful lives calculated on an aggregate basis for each group. During the year, the issuer disposed of certain of these assets and deferred recognition of the loss on the disposition by adjusting the net carrying value, and extending the estimated useful life, of the remaining assets with which the disposed assets had been grouped. The Firm failed to sufficiently evaluate whether the issuer's method of accounting for these assets, including its treatment of gains and losses and the adjustment to the useful lives of groups of assets, was in conformity with generally accepted accounting principles ("GAAP"). Specifically, the Firm did not perform an analysis of the applicable authoritative guidance, as it limited its evaluation to non-authoritative accounting guidance unrelated to the issuer's business.



A.7. Issuer G

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures to test the design effectiveness of controls over the recognition of certain of the issuer's revenue were insufficient. Specifically, the Firm failed to identify that the controls that it selected for testing did not address whether revenue was recognized in accordance with the terms of the related contracts and in conformity with GAAP.
- The Firm designed its substantive procedures to test the appropriateness of the issuer's recognition of this revenue based on reliance on controls. The Firm's level of reliance on controls was excessive due to the deficiency in the Firm's testing of controls that is discussed above, and the Firm's substantive testing in this area consequently was not sufficient. Specifically, the Firm's substantive procedures to evaluate whether this revenue was recognized in accordance with the terms of the related contracts and in conformity with GAAP were limited to reviewing one contract and considering the shipping terms in certain other contracts.

A.8. Issuer H

In this audit, the Firm failed to perform sufficient procedures to test the valuation of certain long-lived assets. Specifically, the Firm relied on a control over the assessment of the possible impairment of long-lived assets. That control used cash flow information at the level of the issuer's individual locations. The Firm also used this cash flow information in its substantive procedures. The Firm, however, failed to test this information, other than by comparing certain of the information for two locations to the general ledger, from which the information had been derived.

A.9. Issuer I

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as the Firm's procedures to test the existence of, and controls over the existence of, a significant portion of the issuer's inventory were insufficient. Specifically, the Firm failed

to test whether the issuer's cycle-count procedures addressed that (a) all relevant inventory items were counted, (b) the cycle counts occurred as frequently as planned, and (c) the counts were sufficiently precise.

A.10. Issuer J

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient testing with respect to the completeness and existence of a significant portion of the issuer's inventory. Specifically –

- The Firm's procedures to test the effectiveness of the issuer's controls over the existence of this inventory were insufficient. Specifically, the Firm identified and tested one control relating to the issuer's reconciliation of its cycle-count results to the inventory system and concluded that the controls over the cycle-count procedures were effective. The Firm, however, failed to identify and test any controls regarding whether the issuer's cycle-count procedures were sufficiently reliable, such as controls that would address whether all items were counted, the counts occurred as frequently as planned, and the counts were sufficiently precise.
- The Firm's procedures to test the completeness and existence of this inventory were insufficient. Specifically, the Firm performed physical counts of certain inventory after the end of the year. The Firm, however, failed to (a) determine that any movement of inventory that occurred during the Firm's physical counts was taken into account, and (b) test the accuracy and completeness of the data it used to reconcile its inventory counts to the issuer's year-end inventory. In addition, for a significant portion of the inventory subject to this testing, the Firm selected items for testing only from the issuer's inventory system, which addresses inventory existence, and did not also select from the inventory physically on hand, which would address the completeness of recorded inventory.

A.11. Issuer K

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- For one business unit, the Firm determined that information technology general controls ("ITGCs") related to the issuer's revenue and inventory system were ineffective during a portion of the year, but that the deficiencies in these ITGCs were remediated by year end. The Firm's procedures to test certain of these controls after the deficiencies were remediated were insufficient, in that the Firm –
  - Limited its testing to a sample of one for each manual control;
  - Failed to test an automated control designed to prevent revenue from being recognized before the shipment of goods; and
  - Failed to test controls over the accuracy and completeness of certain information used in the performance of these controls.
- For two other business units, the Firm's procedures to test the existence of, and controls over the existence of, certain of the issuer's inventory were insufficient. Specifically, the Firm failed to test whether the issuer's cycle-count procedures addressed that (a) all relevant inventory items were counted, (b) the cycle counts occurred as frequently as planned, and (c) the counts were sufficiently precise.

A.12. Issuer L

In this audit, the Firm failed to perform sufficient procedures to test certain of the issuer's revenue. Specifically –

- The Firm sent requests to certain of the issuer's customers to confirm sales invoices. For the confirmation requests that did not result in a response, the Firm's alternative procedures were not sufficient to conclude that the issuer's revenue recognition was appropriate, as the procedures were limited to verifying that the invoice had been paid or, for unpaid

invoices, inspecting the underlying issuer-prepared invoice, verifying that the customer had a history of paying, and noting that the issuer had recorded a reserve against the full amount of the invoice.

- The Firm failed to test the accuracy and completeness of certain data and reports that it used to (a) select items to test, and (b) perform substantive analytical procedures.

A.13. Issuer M

In connection with a foreign affiliated firm's audit of an issuer, the Firm tested certain accounts of a subsidiary of the issuer, including the subsidiary's inventory, and the related controls. The subsidiary held certain inventory on a consignment basis. The Firm failed to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in the audit. Specifically, the Firm failed to identify and test any controls over the subsidiary's identification of, and accounting for, consigned inventory. In addition, given this deficiency, the Firm failed to sufficiently test the subsidiary's rights to inventory included in its accounts in that it did not have a basis to rely on the completeness of the population from which it made its selections for testing the subsidiary's rights to inventory.

**B. Auditing Standards**

Each of the deficiencies described in Part I.A of this report represents circumstances in which either (a) the Firm failed to comply with the requirement to obtain sufficient appropriate evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with applicable accounting principles, and/or for its opinion concerning whether the issuer maintained, in all material respects, effective internal control over financial reporting, or (b) the Firm failed to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit in which it played a role but was not the principal auditor. Each deficiency relates to several applicable standards that govern the conduct of audits.

AU 230, *Due Professional Care in the Performance of Work* requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and Auditing Standard ("AS") No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13") specify that due professional care includes the

exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and AS No. 15, *Audit Evidence* ("AS No. 15") requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS No. 5") and AS No. 13 establish requirements regarding testing and evaluating internal control over financial reporting. In an audit of internal control over financial reporting in an integrated audit, AS No. 5 requires the auditor to plan and perform the audit to obtain appropriate evidence that is sufficient to support the auditor's opinion on internal control over financial reporting as of the date of that opinion. AS No. 13 requires that, if the auditor plans to assess control risk at less than the maximum and to base the nature, timing, and extent of substantive procedures on that lower assessment, the auditor must obtain evidence that the controls tested were designed and operating effectively during the entire period for which the auditor plans to rely on controls to modify the substantive procedures.

The deficiencies described in Part I.A of this report relate to one or more of the provisions referenced above, and in many cases also relate to the failure to perform, or to perform sufficiently, certain specific audit procedures that are required by other applicable auditing standards. The table below lists the specific auditing standards that are primarily implicated by the deficiencies identified in Part I.A. of this report. The broadly applicable aspects of AS No. 5, AS No. 13, AS No. 15, and AU 230 discussed above are not repeated in the table below.<sup>5/</sup>

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<sup>5/</sup> This table does not necessarily include reference to every auditing standard that may have been implicated by the deficiencies included in Part I.A.

<b>PCAOB Auditing Standards</b>	<b>Issuers</b>
<i>AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	A, B, C, D, G, I, J, K, and M
<i>AS No. 13, The Auditor's Responses to the Risks of Material Misstatement</i>	A, C, and G
<i>AS No. 15, Audit Evidence</i>	G and L
<i>AU 328, Auditing Fair Value Measurements and Disclosures</i>	B
<i>AU 329, Substantive Analytical Procedures</i>	L
<i>AU 330, The Confirmation Process</i>	L
<i>AU 331, Inventories</i>	A, I, J, K, and M
<i>AU 342, Auditing Accounting Estimates</i>	C, D, E, F, and H

### **C. General Information Concerning PCAOB Inspections**

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and to address any such weaknesses and deficiencies. To achieve that goal, inspections include reviews of certain aspects of selected audit work performed by the Firm and reviews of certain aspects of the Firm's quality control system. The focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

The inspection team selects the audits and aspects to review, and the Firm is not allowed an opportunity to limit or influence the selections. In the course of reviewing aspects of selected audits, the inspection team may identify matters that it considers to be deficiencies in the performance of the work it reviews. Those deficiencies may include failures by the Firm to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,<sup>6/</sup> as well as

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<sup>6/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with applicable

failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures. It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audit work, or the relevant issuers' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

If the Board inspection team identifies audit deficiencies that reach a certain level of significance, described in Part I.A of this report, those deficiencies are summarized in the public portion of the Board's inspection report. The Board cautions, however, against extrapolating from the results presented in the public portion of the report to broader conclusions about the frequency of deficiencies throughout the Firm's practice. Audit work is selected for inspection largely on the basis of an analysis of factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

In some cases, the conclusion that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation* ("AS No. 3") provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. Depending

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accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions.<sup>7/</sup>

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and processes related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following five areas (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of the Firm's risk-rating system; (4) processes related to the Firm's use of audit work that the Firm's foreign affiliates perform on the foreign operations of the Firm's U.S. issuer audit clients; and (5) the Firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to weaknesses in quality control.

END OF PART I

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<sup>7/</sup> The inspection team may review, either in the same inspection or in subsequent inspections, the adequacy of the firm's compliance with these requirements. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.





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PART II, PART III, AND APPENDIX A OF THIS REPORT ARE  
NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

**APPENDIX B**

**RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>8/</sup>

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<sup>8/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

April 25, 2013

Mr. Christopher D. Mandaleris  
Senior Deputy Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006

Re: Deloitte & Touche LLP – Response to Part I of Draft Report on 2012 Inspection

Dear Mr. Mandaleris:

Deloitte & Touche LLP is pleased to submit this response to the draft Report on 2012 Inspection of Deloitte & Touche LLP (the Draft Report) of the Public Company Accounting Oversight Board (the PCAOB or the Board). We believe that the PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We have evaluated the matters identified by the Board's inspection team for each of the issuer audits described in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities under AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Executing high quality audits is our number one priority. We are confident that the investments we have made and are continuing to make in our audit processes, policies, and quality controls are resulting in significant enhancements to our audit quality.

Sincerely,



Joseph J. Echevarria, Jr.  
Chief Executive Officer  
Deloitte LLP



Gregory G. Weaver  
Chairman and CEO  
Deloitte & Touche LLP