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Report on

2014 Inspection of Deloitte & Touche LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

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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

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2014 INSPECTION OF DELOITTE & TOUCHE LLP

Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Deloitte & Touche LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.D of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report, portions of Appendix C, and Appendix D. Appendix C consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix D presents the text of the paragraphs of the auditing standards that are referenced in Part I.A in relation to the description of auditing deficiencies there.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1] for the inspection from October 2013 to January 2015. 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 inspection procedures included reviews of portions of 52 issuer audits performed by the Firm and a review 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.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix D to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in the references to the auditing standards in this sub-Part, unless the lack of compliance with these standards

[1] For this purpose, the time span for "primary procedures" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and/or the issuer maintained effective ICFR.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[2]

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[2] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Depending upon the circumstances, compliance with PCAOB 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 its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.11, below.

Effects on Audit Opinions

Of the 11 issuer audits that appear in Part I.A, deficiencies in seven audits relate to testing controls for purposes of the ICFR opinion and deficiencies in seven audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the seven audits in which substantive testing deficiencies were identified, one audit included a deficiency in substantive testing that the inspection team determined was caused by a reliance on controls that was too high in light of deficiencies in the testing of controls.

	Number of Audits
Deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	3
Deficiencies included in Part I.A related to the financial statement audit only	4
Deficiencies included in Part I.A related to the ICFR audit only	4
Total	11

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that are included most frequently in Part I.A of this report. A general description of each type is provided in the table; the description of each deficiency later in Part I.A contains more specific information about the individual deficiency. The table includes only the four

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inspection report about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

most frequently identified deficiencies that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Deficiencies	Part I.A Audits
Failure to sufficiently test controls over or sufficiently test the accuracy and completeness of issuer-produced data or reports	6 Audits: Issuers A, C, D, E, I, and J
Failure to sufficiently test significant assumptions or data that the issuer used in developing an estimate	4 Audits: Issuers A, B, G, and H
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	3 Audits: Issuers A, C, and E
Failure to identify and test any controls that addressed the risks related to a particular account or assertion.	3 Audits: Issuers A, B, and D

Audit Deficiencies

A.1. Issuer A

In this audit of an issuer in the insurance industry, 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 controls over the valuation of certain insurance-related assets, which consisted of deferred acquisition costs, and certain insurance-related liabilities, which consisted of various insurance reserves, were insufficient. Specifically –

  - o The Firm selected for testing nine controls that related to the valuation of these insurance-related assets and liabilities. Each of these controls operated in one or more of the issuer's segments and, collectively, they operated in most of the issuer's segments. These controls included reviews of assumptions and calculations, and/or comparisons of actual results to forecasts. The Firm's procedures to test these controls were insufficient, as follows –

- The Firm failed to sufficiently test the design and operating effectiveness of three of these controls. Specifically, the Firm's procedures to test these controls consisted of (1) inquiring of issuer personnel, (2) inspecting certain documents used in the performance of the controls, and (3) observing evidence that certain reviews had occurred. In addition, for one of these three controls, the Firm's procedures included determining whether there were explanations provided for all variances over the investigation threshold established for the control. Further, for another of these controls, the Firm's procedures included tracing certain of the assumptions subject to the reviews to underlying insurance contracts or to external sources. For all three of these controls, the Firm failed to sufficiently test whether the control was designed and operated at a level of precision that would prevent or detect material misstatements, in that the Firm's procedures did not include evaluating the appropriateness of the steps the control owners took in the performance of their reviews, including the criteria used by the control owners to identify matters for investigation and the steps involved in investigating and resolving those matters. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to sufficiently test the operating effectiveness of the other six controls. Specifically, the Firm's procedures were limited to (1) inquiring of issuer personnel, (2) inspecting certain documents used in the performance of the controls, (3) determining whether there were explanations provided for all variances over the investigation threshold established for the control, and/or (4) observing evidence that certain reviews had occurred. The Firm failed to sufficiently test whether these controls operated at a level of precision that would prevent or detect material misstatements, in that the Firm's procedures did not include evaluating whether variances exceeding the established thresholds were appropriately investigated and resolved. (AS No. 5, paragraph 44)

- The Firm failed to perform sufficient procedures to test controls over certain reports that the issuer used in the operation of four of the controls that are described in the preceding paragraph. Specifically –

    - The Firm failed to identify and test any controls over the accuracy and completeness of the reports used in the operation of two of these controls. (AS No. 5, paragraph 39)

    - For the other two controls, the Firm failed to test the operating effectiveness of the aspects of these controls that addressed the completeness of the reports used in the operation of these controls, or, in the alternative, test any other controls over the completeness of these reports. (AS No. 5, paragraph 44)

- The issuer used certain data to develop certain significant assumptions that it used to estimate the value of deferred acquisition costs and insurance reserves. For one segment, the Firm failed to identify and test any controls over the accuracy and completeness of the data. (AS No. 5, paragraph 39)

- For another segment, the Firm failed to identify and test any controls over the issuer's calculation of the amount of amortization of the deferred acquisition costs. (AS No. 5, paragraph 39)

- The issuer used certain inputs to estimate the fair value of a derivative liability and disclosed certain information related to these inputs in the notes to the financial statements. The Firm failed to identify and test any controls over these inputs, and it also failed to substantively test these inputs. (AS No. 5, paragraph 39; AS No. 14, paragraph 30; AU 342, paragraph .11)

A.2. Issuer B

In this audit of an issuer in the financial services industry, 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 testing related to the valuation of the issuer's mortgage servicing rights ("MSRs") was insufficient. Specifically –

- At year end, the issuer recorded the value of substantially all of its MSRs using the lower of the amortized cost or the fair value, and, for this purpose, grouped the MSRs into categories based on certain risk characteristics related to the underlying loans. The Firm failed to perform sufficient testing related to the issuer's use of these categories in the assessment of the lower of amortized cost or fair value of the MSRs, as follows –

    - The Firm failed to identify and test any controls over the issuer's determination of the categories that it used to group the MSRs. (AS No. 5, paragraph 39)

    - The Firm failed to sufficiently test the appropriateness of the categories determined by the issuer. Specifically, the Firm failed to evaluate, other than through inquiry, the appropriateness of the specific risk characteristics that the issuer used to group the MSRs into the categories. (AS No. 14, paragraph 30)

- The Firm failed to perform sufficient substantive procedures to test the fair values that the issuer used to (1) assess the lower of amortized cost or fair value of certain of the MSRs described above and (2) establish the initial carrying values of certain MSRs acquired during the year. When testing the fair values of these MSRs, the Firm selected a sample of MSRs and evaluated the reasonableness of the issuer's estimated MSR values as well as the significant assumptions that the issuer used to determine the fair values. The Firm's substantive procedures focused on (1) comparing the estimated MSR values and the issuer's assumptions for various sub-groups of loans to amounts for those values or assumptions, generally expressed as a range, that the Firm had developed using generic market information for loans of the same type or with the same interest rate as the sub-groups; and (2) considering certain differences. The Firm, however, failed to obtain evidence that the generic market information was relevant and precise enough to enable the Firm to identify potential material misstatements in the valuation of these MSRs. (AU 328, paragraphs .26, .28, and .31)

A.3. Issuer C

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

- The Firm selected for testing various controls over the impairment analyses that the issuer performed to assess the valuation of goodwill, other intangible assets, and property and equipment. The controls included reviews of analyses, workbooks, and projections. The Firm's procedures to test the operating effectiveness of these controls were insufficient. Specifically, the Firm's procedures were limited to inquiring of issuer personnel, inspecting various documents used in the performance of the controls, and obtaining evidence of certain reviews. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the effectiveness of the steps the control owners took to perform their reviews. (AS No. 5, paragraph 44)

- The Firm identified a fraud risk related to the issuer's identification and disclosure of existing or potential debt covenant violations. The Firm selected for testing a control over the issuer's liquidity model, which the issuer used to assess the likelihood of a debt covenant violation. This control included management's review of the liquidity model, and the Firm concluded that this control addressed the accuracy and completeness of the data used in the model. The Firm's procedures to test this control were not sufficient. Specifically, the Firm failed to test the specific steps that the control owners performed to address the accuracy and completeness of the data used in the liquidity model or, in the alternative, test any other controls over the accuracy and completeness of such data. (AS No. 5, paragraphs 42 and 44)

A.4. Issuer D

In this audit of an issuer in the financial services industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as its procedures to test controls over the issuer's allowance for loan losses ("ALL") were insufficient. Specifically –

- The issuer used projected cash flows calculated by a model in its determination of (1) a significant portion of the general component of the ALL and (2) the specific component of the ALL. The Firm failed to identify and test any controls over (1) the accuracy and completeness of certain significant loan and market data that the issuer used in the model and (2) certain adjustments that the issuer made to the model based upon its recent loan-loss and default experience. (AS No. 5, paragraph 39)

- The Firm identified and tested controls over (1) the loss-emergence factor used in the calculation of a portion of the general component of the ALL and (2) the qualitative portion of the general component of the ALL. Both of these controls involved management's review of related analyses, and the Firm concluded that these controls addressed the accuracy and completeness of the data used in the analyses. The Firm, however, failed to identify and test any specific steps that the control owners performed to address the accuracy and completeness of the data, or, in the alternative, test any other controls over the accuracy and completeness of the data. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to identify and test any controls over certain calculations that the issuer performed using the projected cash flows described above and that were important to the issuer's determination of the specific component of the ALL. (AS No. 5, paragraph 39)

A.5. Issuer E

In this audit of an issuer in the financial services industry, 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 –

- During the year, the issuer sold certain mortgage loans and retained the MSRs, which were initially recorded based on their fair values at the date of the loans' sale. The issuer used the fair values of the MSRs when calculating the gains on the sales of the loans that it recorded. At year end, the issuer recorded the value of its MSRs using the lower of the amortized cost or the fair value. The Firm failed to sufficiently test controls over the valuation of the MSRs at the date of the loans' sale and at year end, as follows –

    - The Firm selected for testing a control over the MSR fair values at the date of the related loans' sale that involved the issuer comparing its MSR values to a range of values that the issuer obtained from an external source. The Firm failed to sufficiently test whether the design of this control was appropriate. Specifically, the Firm failed to evaluate whether the values from the external source provided an appropriate basis for comparison to the issuer's values, given that many of these loan sales occurred after the periods to which the external source's values related. (AS No. 5, paragraph 42)

    - The Firm identified a fraud risk related to two of the assumptions that the issuer used to estimate the MSR fair values at year end. The Firm selected for testing a control over these assumptions that the Firm considered to be responsive to the fraud risk and that included an analysis of these assumptions and a review of that analysis. The Firm's procedures to test this control were insufficient. Specifically, the Firm's testing of the aspects of this control that related to these assumptions was limited to inquiring of issuer personnel and inspecting certain documents used in the performance of the review, without evaluating the appropriateness of the steps the control owner took to review the analysis, including the criteria used by the control owner to identify matters for investigation and the steps involved in investigating and resolving those matters. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to identify and test any controls over the accuracy and completeness of certain data that constituted a significant input to the model the issuer used to estimate the fair value of the MSRs at year end. (AS No. 5, paragraph 39)

- The Firm failed to sufficiently test controls over the valuation of one of the issuer's loan portfolios, which constituted a significant portion of the loans held for investment. Specifically, the Firm selected for testing three controls over the loan risk ratings, which were significant inputs to the issuer's estimate of the ALL for this portfolio. One of these controls provided little assurance over the risk ratings that were used during the year because the control operated over the loan risk ratings that the issuer had determined as of the prior year end. The Firm's testing of the other two controls was not sufficient, as follows –

  - The first control consisted of (1) the review of risk ratings for loans meeting certain criteria and (2) monitoring procedures designed to determine that all loans meeting the criteria were reviewed. The Firm's procedures to test this control were limited to inquiring of the control owners responsible for conducting the monitoring, reperforming the monitoring procedures, determining whether the monitoring procedures had occurred, and reading certain of the issuer's policies related to the review of risk ratings. The Firm did not perform any testing of the operation of the aspect of the control that consisted of the review of the loan risk ratings. (AS No. 5, paragraph 44)

  - The Firm's procedures to test the other control, which involved the review of changes to loan risk ratings for appropriateness and accurate recording, were limited to inquiring of the control owners, inspecting certain documents used in the performance of the review, and obtaining evidence that certain changes in loan risk ratings had been approved and accurately reflected in the loan system. The Firm failed to evaluate the review procedures that the control owners performed when assessing the appropriateness of the changes to the loan risk ratings; therefore, the Firm failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- The Firm designed its substantive procedures to test the valuation of the loan portfolio described above – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls that are discussed above. As a result, certain of the sample sizes the Firm used to test the valuation of these loans were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

A.6. <u>Issuer F</u>

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. The issuer established a liability when it received certain funds from its customers. For funds that the issuer obtained in jurisdictions that it believed did not have regulations requiring escheatment of unclaimed funds, the issuer's policy was to recognize revenue in the amount of funds that were unclaimed and aged over 90 days, which the issuer believed represented a time period after which the probability of a customer claiming the funds was remote. The Firm identified a fraud risk related to the manual journal entry used to record this revenue. The Firm's procedures to test the issuer's recognition of this revenue, and related disclosures, were insufficient, as follows –

- The Firm's procedures to test the issuer's assertion that it had a legal basis to retain these unclaimed funds did not sufficiently respond to the risks presented, as they were limited to (1) inquiring of certain of the Firm's foreign affiliates regarding escheatment regulations in their countries, (2) inquiring of, and obtaining representations from, management, and (3) performing an online search for relevant laws and regulations in a sample of jurisdictions. (AS No. 13, paragraphs 8 and 13)

- The Firm failed to evaluate whether the issuer's financial statements contained the information related to the recognition of this revenue that was essential for a fair presentation of the financial statements in conformity with GAAP. (AS No. 14, paragraph 31)

A.7. <u>Issuer G</u>

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the valuation of goodwill for a reporting unit, which generated most of the issuer's revenue and to which a substantial portion of the issuer's goodwill was assigned, were insufficient. Specifically –

- The Firm failed to sufficiently test two of the significant inputs that the issuer used in its annual goodwill impairment test for this reporting unit, as follows –
  - One input was the issuer's cash-flow forecast for the reporting unit, which incorporated assumptions about the reporting unit's future revenue growth and future cost savings. The Firm's testing of the cash-flow forecast, which focused on the forecasted revenue growth rates and forecasted cost savings, was not sufficient. Specifically –
    - The forecasted revenue growth rates were higher than the issuer's growth rate in the most recent year and, for certain years, were higher than the growth projections that the Firm obtained for peer companies and for the reporting unit's industry. In addition, the reporting unit had not met its forecasts for revenue and margin rates for the preceding two years. The Firm, however, limited its procedures to evaluate the revenue growth assumptions underlying the cash-flow forecasts to inquiring of issuer personnel and comparing the reporting unit's revenue growth projections to peer company data, industry data, and general economic data, even though certain of these comparisons showed certain of the differences noted above. (AU 328, paragraphs .26, .28, .31, and .36)

    - The issuer forecasted significant cost savings based on (1) a restructuring plan adopted at the beginning of the year and (2) the expected relocation of certain operations. The Firm limited its procedures to evaluate the assumptions underlying the forecasted cost savings to (1) testing the clerical accuracy of the calculation that the issuer used to estimate certain forecasted cost savings at the time of the adoption of the restructuring plan, (2) comparing the forecasted cost savings related to the expected relocation to a management-prepared presentation to the Board of Directors, and (3) performing a sensitivity analysis related to the forecasted cost savings. The Firm's procedures did not include evaluating the reasonableness of the assumptions the issuer used to forecast these cost savings. (AU 328, paragraphs .26, .28, and .36)

  - The other input was the discount rate. The Firm failed to sufficiently evaluate the reasonableness of the issuer's decision not to include a company-specific risk premium in the discount rate. Specifically, the Firm failed to evaluate, beyond inquiry, the implications on this decision of factors that appeared to indicate a heightened risk associated with the issuer's cash-flow forecast, which are described in the paragraphs above. (AS No. 14, paragraph 3; AU 328, paragraphs .26, .28, and .36)

- The Firm failed to sufficiently evaluate the issuer's determination that it did not need to test goodwill for impairment between its annual tests. The issuer's determination was based upon the results of sensitivity analyses that it performed at various interim dates on the two key inputs described above. The Firm failed to evaluate, beyond inquiry, whether the determination not to perform an interim test of the valuation of goodwill was reasonable in light of events and circumstances during the year, including the issuer's quarterly operating losses, a decline in sales shipment volumes in the reporting unit's industry, significant downward revisions to the issuer's earnings forecasts, changes in the issuer's management, and the significant restructuring affecting this reporting unit that is noted above. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.8. Issuer H

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the valuation of goodwill for one of the issuer's reporting units were insufficient. The goodwill for this reporting unit represented a significant portion of the issuer's total goodwill. The discount rate was a significant input to the issuer's annual goodwill impairment test for this reporting unit, and the company-specific risk premium, which the issuer had reduced significantly from the prior year, was a component of the discount rate. The Firm's evaluation of the reasonableness of the company-specific risk premium was insufficient in that the Firm failed to evaluate, beyond inquiry, the effect of factors that appeared to indicate a heightened risk associated with the issuer's cash-flow projections for this reporting unit. Specifically, (1) for the most recent year, the reporting unit's financial results were significantly below the results that the issuer had budgeted for the reporting unit; (2) the projected results for the reporting unit that were used in the impairment test were significantly higher than the reporting unit's results for the most recent year; and (3) the prices of the products the reporting unit produced were potentially volatile. (AS No. 14, paragraph 3; AU 328, paragraphs .26, .28, and .36)

A.9. Issuer I

In this audit of a manufacturer and marketer of consumer products, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The Firm identified a fraud risk related to certain promotional discounts that the issuer recorded as reductions to revenue; the fraud risk was due, in part, to a history of errors in the data that the issuer used to estimate such discounts and the risk of manipulation of the related assumptions. The Firm selected for testing two controls over the promotional discounts. These controls involved (1) a review of a quarterly analysis of the timing of the promotional discounts, including historical activity, and (2) a review of monthly sales and promotional discount activity disaggregated by region, customer, and product type. The Firm's testing of these controls, however, was insufficient because the Firm failed to identify and test any controls over the accuracy and completeness of the data and reports used in the performance of these controls, other than a third control that the Firm determined was ineffective. (AS No. 5, paragraph 39)

A.10. Issuer J

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The Firm identified deficiencies in the controls over revenue that it had selected for testing, and it identified another control, which included reviews of disaggregated revenue-related data for the issuer's multiple business units, that it believed mitigated the effect of these deficiencies. The Firm, however, failed to sufficiently test this compensating control, in that it failed to test the operating effectiveness of controls over the accuracy and completeness of the data used in the operation of this control, and, as a result, it failed to appropriately evaluate the severity of the identified control deficiencies. (AS No. 5, paragraphs 44 and 68)

A.11. Issuer K

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test revenue and cost of sales for a significant portion of the issuer's business were insufficient. To test the revenue and cost of sales for this portion of the issuer's business, the Firm performed several substantive analytical procedures, using revenue and cost of sales data disaggregated by month and by product line. The Firm, however, failed to test the accuracy of certain of the disaggregated data that it used in the performance of these analytical procedures. (AU 329, paragraph .16)

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism.

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

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement. AS No. 15, *Audit Evidence*, paragraph 4, 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 (in the audit of financial statements) or the risk associated with the control (in the audit of ICFR) 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 providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited. For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	**Audits**	**Number of Deficiencies per Audit**
AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A	7
	Issuer B	1
	Issuer C	2
	Issuer D	3
	Issuer E	5
	Issuer I	1

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
	Issuer J	1
AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer E Issuer F	1 1
AS No. 14, *Evaluating Audit Results*	Issuer A Issuer B Issuer F Issuer G Issuer H	1 1 1 2 1
AU 328, *Auditing Fair Value Measurements and Disclosures*	Issuer B Issuer G Issuer H	1 3 1
AU 329, *Substantive Analytical Procedures*	Issuer K	1
AU 342, *Auditing Accounting Estimates*	Issuer A Issuer G	1 1
AU 350, *Audit Sampling*	Issuer E	1

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to each deficiency included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed.[3]

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[3] Certain deficiencies that affect multiple accounts or areas, such as those related to scoping multi-location audits and those related to the evaluation of control deficiencies, are excluded from this table, but are included in appendix D.

	AS No. 5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Disclosure of existing or potential debt covenant violations	C						
Impairment of goodwill and intangible assets	C		G, H	G, H		G	
Insurance-related assets and insurance-related liabilities, including insurance reserves	A						
Loans, including ALL	D, E	E					E
Mortgage servicing rights	B, E		B	B			
Revenue, including accounts receivable, deferred revenue, and allowances	I, J	F	F		K		
Other	A		A			A	

B.3. Audit Deficiencies by Industry

The table below lists the industries[4] of the issuers for which audit deficiencies were discussed in Part I.A of this report, along with the specific auditing standards related to the deficiencies and the number of issuer audits where those deficiencies were observed.[5] Because an issuer audit may have deficiencies that relate to more than one standard, the total for each row should not be read as the total number of issuers.

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[4] The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer was not available from S&P, classifications were assigned based upon North American Industry Classification System data.

[5] Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

	AS No. 5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Consumer Discretionary	1						
Consumer Staples	1				1		
Financial Services	4	1	2	1		1	1
Industrials	1		1	1			
Information Technology		1	1				
Materials			1	1		1	

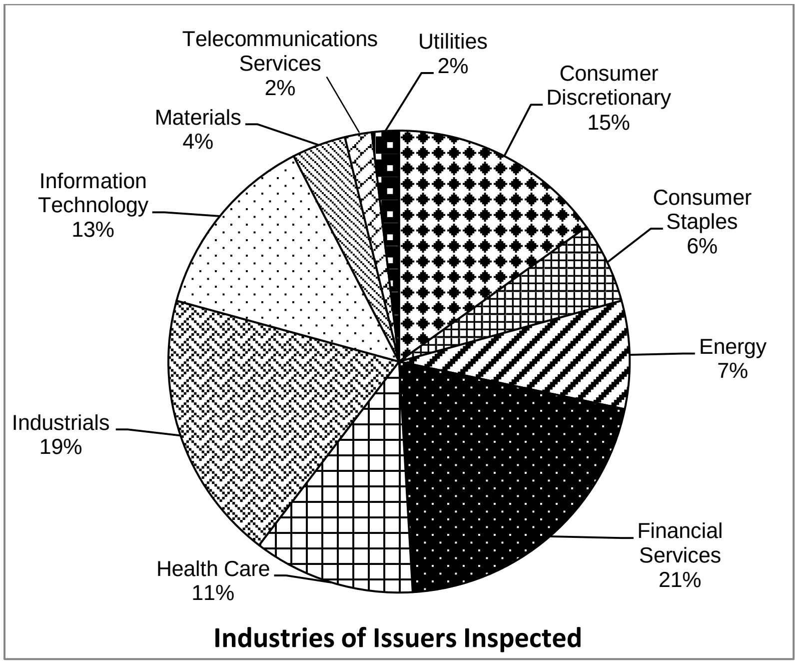
C. Data Related to the Issuer Audits Selected for Inspection[6]

C.1. Industries of Issuers Inspected

The chart below categorizes the 53 issuers whose audits were inspected in 2014, based on the issuer's industry.[7]

[6] Where the audit work inspected related to an engagement in which the Firm played a role but was not the principal auditor, the industry and the revenue included in the tables and charts below are those of the entity for which an audit report was issued by the primary auditor. As discussed above, the inspection process included reviews of portions of 52 selected issuer audits completed by the Firm and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor.

[7] See Footnote 4 for additional information on how industry sectors were classified.



Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	8	15%
Consumer Staples	3	6%
Energy	4	7%
Financial Services	11	21%
Health Care	6	11%
Industrials	10	19%
Information Technology	7	13%
Materials	2	4%
Telecommunications Services	1	2%
Utilities	1	2%

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 53 issuers whose audits were inspected in 2014.[8] This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.

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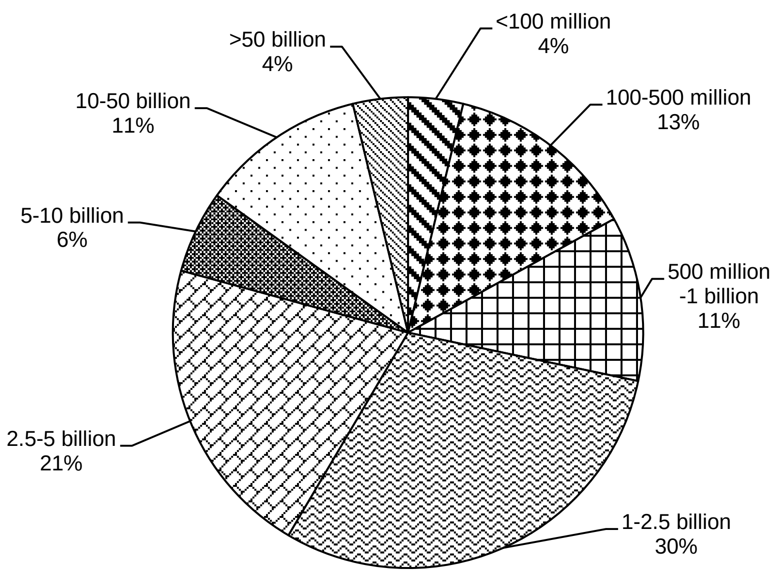
[8] The revenue amounts reflected in the chart are for the issuers' fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.



Revenue Ranges of Issuers Inspected

Revenue	Number of Audits Inspected	Percentage
<100 million	2	4%
100-500 million	7	13%
500 million -1 billion	6	11%
1-2.5 billion	16	30%
2.5-5 billion	11	21%
5-10 billion	3	6%
10-50 billion	6	11%
>50 billion	2	4%

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects 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, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

D.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of ICFR. For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[9] as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection of an annually inspected firm does not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

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[9] 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 the applicable financial reporting framework, 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.

In some cases, the conclusion that a firm did not 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,* 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. In reaching its conclusions, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.[10]

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing

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

deficiencies are present, rather than through a process intended to identify a representative sample.

D.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice,* provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit may indicate a defect or potential defect in a firm's quality control system.[11] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the

[11] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

nature, significance, and frequency of deficiencies;[12] related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (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 issuer audit engagements, 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 audits; 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 defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

D.2.a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management

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[12] An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.2.b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area are designed to focus on (1) whether the firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a 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 Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

D.2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I

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

APPENDIX C

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.[13]

[13] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. 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.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

April 30, 2015

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 2014 Inspection

Dear Mr. Mandaleris:

Deloitte & Touche LLP is pleased to submit this response to the draft Report on the 2014 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,

Catherine M Engelbert

Cathy Engelbert
Chief Executive Officer
Deloitte LLP

Joseph B. Ucuzoglu

Joe Ucuzoglu
Chairman and CEO
Deloitte & Touche LLP

APPENDIX D

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this Appendix, and any other Notes, are from the original auditing standards that are referenced. While this Appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

AS No. 5, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
USING A TOP-DOWN APPROACH		
Selecting Controls to Test		
AS No. 5.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, B, D, E, and I
TESTING CONTROLS		
Testing Design Effectiveness		
AS No. 5.42	The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements. Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.	Issuers A, C, D, and E
Testing Operating Effectiveness		
AS No. 5.44	The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control	Issuers A, C, D, E, and J

AS No. 5, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
	possesses the necessary authority and competence to perform the control effectively. Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.	
EVALUATING IDENTIFIED DEFICIENCIES		
AS No. 5.68	The auditor should evaluate the effect of compensating controls when determining whether a control deficiency or combination of deficiencies is a material weakness. To have a mitigating effect, the compensating control should operate at a level of precision that would prevent or detect a misstatement that could be material.	Issuer J

AS No. 13, ***The Auditor's Responses to the Risks of Material Misstatement***		
Responses Involving the Nature, Timing, and Extent of Audit Procedures		
AS No. 13.8	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuer F
RESPONSES TO FRAUD RISKS		
AS No. 13.13	*Addressing Fraud Risks in the Audit of Financial Statements*. In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs 16-17 of this standard, the auditor should perform tests of those controls.	Issuer F
Testing Controls		
TESTING CONTROLS IN AN AUDIT OF FINANCIAL STATEMENTS		
AS No. 13.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on	Issuer E

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*		
	controls,[12/] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire **period of reliance**.[13/] However, the auditor is not required to assess control risk at less than the maximum for *all* relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	
Footnotes to AS No. 13.16 [12/] Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures. [13/] Terms defined in Appendix A, *Definitions*, are set in **boldface type** the first time they appear.		
AS No. 13.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements*. In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness of a control. The auditor should obtain more persuasive audit evidence from tests of controls the greater the reliance the auditor places on the effectiveness of a control. The auditor also should obtain more persuasive evidence about the effectiveness of controls for each relevant assertion for which the audit approach consists primarily of tests of controls, including situations in which substantive procedures alone cannot provide sufficient appropriate audit evidence.	Issuer E
Substantive Procedures		
AS No. 13.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	Issuer E

AS No. 14, *Evaluating Audit Results*		
Evaluating the Results of the Audit of Financial Statements		
AS No. 14.3	In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	Issuers G and H
EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES		
AS No. 14.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AU sec. 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuers A and B
AS No. 14.31	As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. Note: According to AU sec. 508, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the	Issuer F

AS No. 14, *Evaluating Audit Results*		
	auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.[18/]	
Footnote to AS No. 14.31 [18/] AU secs. 508.41-.44.		

AU 328, ***Auditing Fair Value Measurements and Disclosures***		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AU 328.26	The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether: a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06). b. The fair value measurement was determined using an appropriate model, if applicable. c. Management used relevant information that was reasonably available at the time.	Issuers B, G, and H
AU 328.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers B, G, and H
AU 328.31	Assumptions ordinarily are supported by differing types of evidence from internal and external sources that provide objective support for the assumptions used. The auditor evaluates the source and reliability of evidence supporting management's assumptions, including consideration of the assumptions in light of historical and market information.	Issuers B and G
AU 328.36	To be reasonable, the assumptions on which the fair value measurements are based (for example, the discount rate used in calculating the present value of future cash flows),[fn 5] individually and taken as a whole, need to be realistic and consistent with:	Issuers G and H

AU 328, *Auditing Fair Value Measurements and Disclosures*		
	a. The general economic environment, the economic environment of the specific industry, and the entity's economic circumstances; b. Existing market information; c. The plans of the entity, including what management expects will be the outcome of specific objectives and strategies; d. Assumptions made in prior periods, if appropriate; e. Past experience of, or previous conditions experienced by, the entity to the extent currently applicable; f. Other matters relating to the financial statements, for example, assumptions used by management in accounting estimates for financial statement accounts other than those relating to fair value measurements and disclosures; and g. The risk associated with cash flows, if applicable, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate. Where assumptions are reflective of management's intent and ability to carry out specific courses of action, the auditor considers whether they are consistent with the entity's plans and past experience.	
Footnote to AU 328.36 fn 5 The auditor also should consider requirements of GAAP that may influence the selection of assumptions (see FASB Concepts Statement No. 7).		

AU 329, *Substantive Analytical Procedures*		
Analytical Procedures Used as Substantive Tests		
Availability and Reliability of Data		
AU 329.16	Before using the results obtained from substantive analytical procedures, the auditor should either test the design and operating effectiveness of controls over financial information used in the substantive analytical procedures or perform other procedures to support the completeness and accuracy of the underlying information. The auditor obtains assurance from analytical procedures based upon the consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the	Issuer K

	analytical procedure. The auditor should assess the reliability of the data by considering the source of the data and the conditions under which it was gathered, as well as other knowledge the auditor may have about the data. The following factors influence the auditor's consideration of the reliability of data for purposes of achieving audit objectives: • Whether the data was obtained from independent sources outside the entity or from sources within the entity • Whether sources within the entity were independent of those who are responsible for the amount being audited • Whether the data was developed under a reliable system with adequate controls • Whether the data was subjected to audit testing in the current or prior year • Whether the expectations were developed using data from a variety of sources	

AU 342, *Auditing Accounting Estimates*		
Evaluating Accounting Estimates		
Evaluating Reasonableness		
AU 342.11	Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach: a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the	Issuers A and G

AU 342, *Auditing Accounting Estimates*		
	assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose. f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	

AU 350, *Audit Sampling*		
Sampling In Substantive Tests Of Details		
Planning Samples		
AU 350.19	The second standard of field work states, "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.[fn 3] Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	Issuer E
Footnote to AU 350.19 [fn 3] Some auditors prefer to think of risk levels in quantitative terms. For example, in the circumstances described, an auditor might think in terms of a 5 percent risk of incorrect acceptance for the substantive test of details. Risk levels used in sampling applications in other fields are not necessarily relevant in determining appropriate levels for applications in auditing because an audit includes many interrelated tests		

AU 350, *Audit Sampling*		
and sources of evidence.		
AU 350.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuer E
AU 350.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample.	Issuer E