

September 12, 2011

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Request for Public Comment on Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards (PCAOB Release No. 2011-005, July 12, 2011, Rulemaking Docket Matter No. 036)

Deloitte & Touche LLP appreciates the opportunity to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the “Proposed Standard”) (PCAOB Release No. 2011-005 (the “Release”), July 12, 2011, Rulemaking Docket Matter No. 036).

Scope of the Engagement and Report Language

We agree with the Board’s decision to retain the “in relation to” language when an auditor is engaged to report on supplemental information. We believe that using such language when reporting on supplemental information appropriately conveys the work effort undertaken by the auditor in arriving at the auditor’s opinion. Despite the Proposed Standard’s use of the same words however, we are concerned that the requirements and guidance in the Proposed Standard actually change the performance requirements for auditors when engaged to report on supplemental information. We believe using commonly recognized reporting terminology to describe a different level of work effort will cause confusion to users of the financial statements and supplemental information, and reports thereon.

“In relation to” reporting is widely used and understood in practice today based on the concepts described in the PCAOB’s interim standard AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, as well as Statement on Auditing Standards 119 (“SAS 119”), *Supplementary Information in Relation to Financial Statements as a Whole*, which was issued by the Auditing Standards Board of the American Institute of Certified Public Accountants in 2010. In current practice, when the auditor has been engaged to report on supplemental information in relation to the financial statements as a whole, the auditor uses evidence gained in the audit of the financial statements in addition to performing other procedures that are ordinarily limited to:

- a. Inquiring of management about the purpose of the supplemental information and the criteria used by management to prepare the supplemental information
- b. Determining whether the form and content of the supplemental information complies with the applicable criteria
- c. Obtaining an understanding about the methods of preparing the supplemental information and determining whether the methods of preparing the supplemental information have changed from those used in the prior period and, if the methods have changed, the reasons for such changes

- d. Comparing and reconciling the supplemental information to the underlying accounting and other records used in preparing the financial statements or to the financial statements themselves
- e. Inquiring of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplemental information
- f. Evaluating the appropriateness and completeness of supplemental information, considering the results of procedures performed and other knowledge obtain during the audit of the financial statements
- g. Obtaining written representations from management

We believe that such procedures are appropriate and sufficient for the auditor to express an opinion whether the supplemental information is fairly stated, in all material respects, *in relation to* the financial statements. In this context, it is clear that the materiality refers to the materiality of the financial statements as a whole, and that the auditor's procedures and evaluation of findings are conducted with that materiality in mind.

In contrast, we are concerned that the requirements and guidance in the Proposed Standard significantly expand the scope of the audit procedures required to be performed on the supplemental information beyond what is sufficient and appropriate for an "in relation to" opinion. For example, paragraphs 1 and 2 of the Proposed Standard refer to the auditor being engaged "to *audit and* report on supplemental information." Paragraph 3 of the Proposed Standard requires the auditor to base the nature, timing, and extent of audit procedures on "the materiality of the information presented." These paragraphs therefore seem to infer that the auditor will undertake a second audit, separate and apart from the audit of the financial statements, for which the auditor will plan and perform procedures and report on the supplemental information. If the Board believes such expansion is necessary, we believe the performance of the engagement and reporting thereon would be more appropriately aligned with the requirements and guidance for the conduct of an audit of the supplemental information performed in accordance with the interim standard AU section 623, *Special Reports*.

In addition to the expansion in the performance of procedures, we are concerned that the Proposed Standard also significantly expands the language of the auditor's report through the proposed requirement for two opinions to be expressed on the supplemental information. Paragraph 10(e) of the Proposed Standard describes the two opinions as follows: one opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole, and a second opinion on whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria. We believe the first opinion alone is sufficient. In evaluating whether the supplemental information is fairly stated in all material respects, the auditor would consider the appropriateness of the form and content of the supplemental information if such form and content were prescribed by regulatory requirements or other applicable criteria.

This proposed change would also be incongruous with current reporting on the financial statements (i.e., the auditor does not provide a second opinion related to the form and content of the information in the financial statements when reporting on the audit of the financial statements). As a result, the proposed reporting structure would create a divergence with current practice for reporting related to (1) the financial statement audit and (2) supplemental information. We do not believe such divergence would benefit users of the financial statements and supplemental information. As no explanation for creating such divergence has been provided in the Release, we do not understand the basis for making such a significant change.

The objective of SAS 119 is for the auditor to (a) evaluate the presentation of the supplemental information in relation to the financial statements as a whole and (b) to report on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as

a whole. This objective is met with a single “in relation to” opinion. In addition to the procedures performed during the audit of the financial statements, SAS 119 requires that the auditor perform the procedures described in (a) – (g) above. We agree with the PCAOB’s determination that “in relation to” reporting is an appropriate model for reporting on supplemental information. As we did not find any compelling rationale within the Proposed Standard supporting a change to current practice in the performance or reporting on such engagements, we recommend that the PCAOB align its Proposed Standard with the performance and reporting requirements of SAS 119.

We would welcome an opportunity to further discuss these matters with the Board and the staff. If you have any questions or would like to discuss these matters further, please contact John Fogarty at (203) 761-3227 or Bill Platt at (203) 761- 3755. We thank you for your consideration of these matters.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman
Lewis H. Ferguson, PCAOB Member
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