

July 3, 2014

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

Re: *Supplemental Request for Comment: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*

PCAOB Rulemaking Docket Matter No. 040

Deloitte & Touche LLP (“D&T”) is pleased to respond to the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its *Supplemental Request for Comment: Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*, PCAOB Release No. 2014-001; PCAOB Rulemaking Docket Matter No. 040 (May 7, 2014).

OVERALL COMMENTS

We strongly support the Board’s efforts to reorganize its auditing standards into a single topical structure with a uniform numbering system. Adopting such a structure and system will considerably enhance the usability of the PCAOB’s auditing standards by stakeholders, including auditors.

DETAILED OBSERVATIONS

Proposed Rescission of AU 532, Restricting the Use of an Auditor’s Report

We believe that AU 532, *Restricting the Use of an Auditor’s Report*, should be retained. AU 532 provides useful guidance about the nature of by-product reports and the rationale for circumstances in which it is appropriate to restrict the use of auditor’s reports and written communications (e.g., by-product reports) (collectively “reports”). It also provides a foundation for the individual standards that would continue to include requirements for restricting the use of reports. Eliminating the standard may therefore cause a substantive change in practice, as well as confusion if the elimination is construed as precluding the ability of an auditor to restrict the use of the auditor’s reports. This situation may thereby result in reports that are prepared for specified parties being made available to, and being used by, parties for whom such reports are not intended and who will likely not have the appropriate context for understanding the information contained within the reports or the subject matter to which the reports pertain. The examples in Appendix 1 to this letter illustrate situations in which the rescission of AU 532 could result in an inappropriate outcome.

If the Board determines that it is appropriate to proceed with the rescission of AU 532, we believe that

it would be important for the Board to state explicitly within the auditing standards that auditors are not prohibited from restricting auditor's reports when they feel it is appropriate, and we encourage the Board to retain in the auditing standards the examples included in AU 532 of the types of reports that are appropriate to be restricted as to use.

Proposal to Supersede PCAOB Auditing Standard No. 1, References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

We support the Board's proposal to supersede PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board (AS 1)*. However, the titles of the illustrative auditor's reports included in the PCAOB's standards were not revised to reflect the title "Report of Independent Registered Public Accounting Firm." We suggest that the Board revise the titles of the illustrative auditor's reports in the PCAOB's standards, where appropriate, to reflect the title used in AS 1.

AU 534, Reporting on Financial Statements Prepared for Use in Other Countries

AU 534, *Reporting on Financial Statements Prepared for Use in Other Countries*, was not listed as "rescinded" in Appendix 4, *Proposed Amendments to PCAOB Rules and Standards*, as the Board indicated in the original proposal¹ that AU 534 was not among the interim standards the Board adopted in Rule 3200T, *Interim Auditing Standards*. However, AU 534 does appear on the PCAOB's website as part of the interim standards. Therefore, we believe the Board should specifically rescind AU 534 to avoid confusion as to whether or not it is part of the PCAOB's standards.

* * *

D&T appreciates the opportunity to provide our perspective on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the proposal. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the proposed standard is evaluated and changes are considered. If you have any questions or would like to discuss these issues further, please contact Thomas Omberg at 212-436-4126 or Megan Zietsman at 203-761-3142.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman	Mary Jo White, SEC Chairman
Lewis H. Ferguson, PCAOB Member	Luis A. Aguilar, SEC Commissioner
Jeanette M. Franzel, PCAOB Member	Daniel M. Gallagher, SEC Commissioner
Jay D. Hanson, PCAOB Member	Kara M. Stein, SEC Commissioner
Steven B. Harris, PCAOB Member	Michael S. Piwowar, SEC Commissioner
Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards	Paul A. Beswick, SEC Chief Accountant
	Brian T. Croteau, SEC Deputy Chief Accountant

¹ *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules (PCAOB Release 2013-002)*.

APPENDIX 1 — AU 532 EXAMPLES

The following examples illustrate situations in which the rescission of AU 532 could result in an inappropriate outcome. In these examples, an explicit requirement to restrict the use of an applicable report would not exist if AU 532 were rescinded. There is a risk that companies could choose to make public only certain reports or portions of reports that may be considered favorable and not make public less favorable information contained within such reports.

Communications with Audit Committees Regarding the Conduct of the Audit. PCAOB Auditing Standard No. 16, *Communications with Audit Committees* (AS 16), requires the auditor to communicate with the company's audit committee regarding certain matters related to the conduct of an audit.² AS 16 is intended to improve the effectiveness of the audit by fostering constructive, candid dialogue between the auditor and the audit committee about significant audit and financial statement matters.

Unless otherwise specified by the standard, AS 16 communications may be made orally or in writing. Given this flexibility, in some audits the extent of written communication may be much greater than in other audits where the auditor opted for a greater level of oral communication. Overall, written communications to the audit committee represent only a portion of the total dialogue between auditors and the audit committee. Without the benefit of the contemporaneous discussion or other oral dialogue between the auditor and the audit committee, a written communication to the audit committee that is subsequently made widely available to other parties (i.e., issued without a restriction on use) would, in most cases, not completely reflect the full spectrum of communication that took place between the auditor and the audit committee. Accordingly, such communication may be misunderstood when taken out of the context in which it was intended to be used, particularly when used by parties not contemplated by AS 16.

Communications with Audit Committees Regarding Control-Related Matters. PCAOB Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting That Is Integrated with an Audit of Financial Statements* (AS 5), requires the auditor to communicate with the company's audit committee and management regarding certain matters related to internal control over financial reporting, including deficiencies that are less severe than material weaknesses. AU 325, *Communications about Control Deficiencies in an Audit of Financial Statements*, addresses communication of control-related matters in a nonintegrated audit. While there is no requirement in AS 5 to restrict the use of such reports, AU 325 contains a specific requirement to issue such reports as restricted-use reports. Based on the guidance in AU 325, in practice today, reports of control-related matters (whether issued with respect to AS 5 or AU 325) are considered by-product reports and are issued as restricted-use reports pursuant to AU 532. If AU 532 is rescinded, it would be less apparent that the communication required by AS 5 is a by-product report. We believe that the communication of control-related matters required by AS 5 should continue to be restricted. Although material weaknesses would also be required to be reported by issuers in periodic filings with the Securities and Exchange Commission, less severe control deficiencies (including significant deficiencies) communicated in writing to management and the audit committee are not required to be communicated publicly by management, and accordingly, we do not believe it would be appropriate for the auditor's communication of such matters to be made broadly available.

² Written AS 16 communications are currently identified as by-product reports in AU 532, and are required to be restricted in accordance AU 532, paragraph 09.

Communications with Audit Committees Regarding Independence Matters. PCAOB Ethics and Independence Rule 3524, *Audit Committee Pre-approval of Certain Tax Services Concerning Independence*; Rule 3525, *Audit Committee Pre-approval of Non-Audit Services Related to Internal Control over Financial Reporting*; and Rule 3526, *Communication with Audit Committees Concerning Independence*, require written and oral communications with the audit committee regarding independence matters. Written communications required by these rules may contain sensitive and confidential information about the company and the auditor. Although not a by-product of the audit, such reports are prepared with the intention of being used by specified parties with specific knowledge about the company that might not be available to other users and are accompanied by a required discussion with the audit committee. Therefore, if such reports were to be issued without a restriction, there is a risk that the information in a written communication could be misunderstood or taken out of context by users who would not have the benefit of specific knowledge of the company and the discussion that accompanies the written communication.