

Deloitte & Touche LLP  
10 Westport Road  
PO Box 820  
Wilton, CT 06897-0820

Tel: 203-761-3000  
Fax: 203-834-2200

**Deloitte  
& Touche**

December 4, 2003

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

**Re: PCAOB Rulemaking Docket Matter No. 010**  
**Proposed Auditing Standard – References in Auditors’ Reports to the**  
**Standards of the Public Company Accounting Oversight Board**

Deloitte & Touche LLP is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its Proposed Auditing Standard, *References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board* (the “Proposed Standard”), PCAOB Rulemaking Docket Matter No. 010 (November 12, 2003). We fully agree that it is necessary to revise the language of the auditors’ report to refer to the standards of the PCAOB.

However, the Proposed Standard does not address several transitional and application issues that will arise in the implementation of the standard. In order to ensure consistent and appropriate application, the Proposed Standard requires clarification by the Board with regard to the following issues:

1) *Definition of the phrase “standards of the PCAOB”*

Under the Proposed Standard, the auditors’ report would state that the audit was conducted under the “standards of the PCAOB.” Under the Board’s existing interim standards, the auditors’ report refers specifically to generally accepted *auditing* standards in the United States of America. In order for readers of the auditors’ report to readily determine the country of origin, we believe the reference to the standards of the PCAOB also should specify that such standards have been promulgated in the United States of America. Additionally, as the auditors’ report is speaking specifically to the conduct of the particular audit engagement and is signed by the engagement partner responsible for such engagement, we believe the language in the auditors’ report in the Proposed Standard should specifically refer to the *auditing* standards of the PCAOB.

Further, if by using the word “standards,” the Board is referring to “auditing and related professional practice standards,” which has previously been defined by the Board to include auditing standards, related attestation standards, quality control standards, ethical standards,

and independence standards, and any other professional standards established by the Board, rather than specifically “auditing standards,” then the Board should clarify that the audit documentation for a specific audit engagement is not required to substantiate compliance with certain firm-level quality control, ethics, and independence standards. For example, each individual audit engagement should not be required to document compliance with quality control requirements, such as training, that are documented on a firm-wide level, but not on an engagement specific level.

2) *Audits previously conducted under Generally Accepted Auditing Standards as promulgated by the American Institute of Certified Public Accountants (“GAAS”)*

When each of the years in a comparative presentation have been audited under the PCAOB standards, the illustrated report in the Proposed Standard would be appropriate. However, in the first or second year of the application of the PCAOB standards, it would not be appropriate to state that the audits for all years presented were conducted in accordance with PCAOB standards, as prior audits were conducted under GAAS. Although at this point there are no differences between the interim standards adopted by the PCAOB and GAAS, this will not be true for much longer. Additionally, we do not believe it would be possible to update prior audits performed under GAAS to comply with PCAOB standards. For instance, it would not be possible to update an audit performed in accordance with GAAS to meet the audit documentation standard being proposed by the PCAOB. As such, we are concerned that describing prior audits as being conducted in accordance with the standards of the PCAOB would be misleading to readers. Accordingly, we believe prior audits performed under GAAS should be described as such in the auditors’ report. For example, the first sentence of the scope paragraph might read: We conducted our audit of the 20x3 financial statements in accordance with the auditing standards of the U.S. Public Company Accounting Oversight Board and our audit of the financial statements as of December 31, 20x2, and for each of the years in the two year period then ended, in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants.

Alternatively, the standard should state that the reference to PCAOB standards relates to the standards that were applicable at the time the audits referred to in the report were conducted. However, such alternative would be less clear to the general public.

3) *Reissuance of an auditors’ report when a subsequent audit has not been performed*

The Proposed Standard does not address its applicability to a situation in which an auditors’ report is being reissued prior to the performance of an audit under PCAOB standards. If there is no change in the report date from its earlier issuance, one could conclude that the PCAOB standard does not apply as the report would be dated earlier than the proposed effective date of the standard. However, if the report is dual-dated for a subsequent event on or after the effective date of the standard, it is not clear whether the report would need to reference the PCAOB standards in the dual-dated report. We believe that if an auditors’ report is originally dated prior to the effective date of the standard and is then dual-dated upon reissuance for a subsequent event, the auditors’ report should continue to describe the audit as having been performed under GAAS.

4) Responsibility of predecessor auditors when reissuing their report

The Proposed Standard does not articulate the applicability to predecessor auditors who are required to reissue their report and have not conducted any audits under the PCAOB standards. The issue of such applicability is similar to the continuing auditor situation described in (3) above.

5) Applicability to other auditors who audit an equity investment under GAAS

Presumably, auditors of a consolidated subsidiary that is not itself an issuer would be required to follow the PCAOB standards for auditing standalone financial statements of that subsidiary for purposes of consolidation. However, the issuer may not have the ability to influence the standards to be followed for equity investments. Accordingly, if the other auditors followed GAAS rather than PCAOB standards, and the principal auditors intend to divide responsibility with the other auditors, the principal auditors' report should clearly articulate that the other auditors audited the financial statements of the equity investee in accordance with GAAS. Guidance and an illustrative report example should be provided for this situation. The Board should also consider and provide guidance as to whether it is appropriate for the principal auditors to state that they audited the financial statements in accordance with PCAOB standards when such equity investee constitutes a material part of the consolidated financial statements.

6) Applicability in an Initial Public Offering

Another situation that is not addressed is that of an initial public offering. The audits of the financial statements of a nonpublic entity would be conducted in accordance with GAAS each year. At some point, the entity decides to have an initial public offering. If the entity makes such decision in conjunction with the engagement for the annual audit, the auditors would be able to perform the audit for such year in accordance with the auditing standards of the PCAOB; however, the auditors would not be able to state that the audits of the prior years were conducted in accordance with the PCAOB standards, particularly for those years in which there are significant differences between GAAS and the PCAOB standards. Accordingly, the auditors' report would need to make reference to both the PCAOB standards and GAAS for the respective years as illustrated in (2) above.<sup>1</sup>

However, if the entity requests its auditors to merely reissue their report for inclusion in the registration statement, the auditors would be precluded from making any reference to conducting an audit in accordance with the PCAOB standards. Such situation would therefore preclude the entity from accessing the public markets until such time as an audit is

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<sup>1</sup> This presumes that the Securities and Exchange Commission would accept prior audits that were conducted in accordance with GAAS subsequent to the existence of the PCAOB.

conducted in accordance with the PCAOB standards.<sup>2</sup> This may cause entities to engage their auditors to audit financial statements for an interim period (e.g., a three, six or nine-month period) under the PCAOB standards, which would then necessitate the preparation of complete financial statements for such interim period rather than the condensed interim financial information currently required under the rules of the Securities and Exchange Commission.

Accordingly, we recommend that the Board expand the Proposed Standard to specifically address the various scenarios that auditors will encounter with respect to reporting in conjunction with initial public offerings.

The transition and application issues identified above have significant resulting implications on the language in the auditors' report. While the Proposed Standard suggests that the new standard be applied to reports dated on or after January 1, 2004 (or the tenth date after approval of the final standard), based on the implementation dates of the Board's proposed auditing standards, it is likely that the standards of the PCAOB will not differ from GAAS until after issuers with December 31, 2003 fiscal year ends have filed their applicable Form 10-Ks with the Securities and Exchange Commission for the current year. Because of the uncertainty with respect to the timing of the approval of the final standard, we believe an effective date of reports dated on or after March 16, 2004 would provide a reasonable amount of additional time for issuers and auditors to understand the implications to the auditors' report and to appropriately implement the required changes.

We appreciate the opportunity to comment, and would be pleased to discuss these issues with you further. If you have any questions or would like to discuss these issues further, please contact Robert J. Kueppers at (203) 761-3579 or John A. Fogarty at (203) 761-3227.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: William J. McDonough, Chairman of the PCAOB  
Kayla J. Gillan, Member  
Daniel L. Goelzer, Member  
Willis D. Gradison, Jr., Member  
Charles D. Niemeier, Member

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<sup>2</sup> This presumes that the Securities and Exchange Commission would require that the most recent period included in a registration statement be audited in accordance with PCAOB standards.