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May 28, 2010

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 Related to Communications with Audit Committees and Related Amendments to Certain PCAOB Auditing Standards (PCAOB Release No. 2010-001, March 29, 2010, Rulemaking Docket Matter No. 030)

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 Related to Communications with Audit Committees* (PCAOB Release No. 2010-001 ("Release"), March 29, 2010, PCAOB Rulemaking Docket Matter No.030) (the "Proposed Standard").

Overall, we are supportive of the Proposed Standard. We believe that auditors, in most cases, are already providing meaningful communications on the financial statement and audit areas that meet the spirit of the requirements in the Proposed Standard and go beyond what is currently required by the extant standards. We agree with the Board's decision to combine the requirements of AU 310, *Appointment of the Independent Auditor*, and AU 380, *Communication with Audit Committees* ("AU 380"), to be consistent with the responsibilities of the audit committee outlined in the Sarbanes-Oxley Act of 2002 ("the Act"). We also support the PCAOB's consideration of International Standards on Auditing ("ISA") 260, *Communication with Those Charged with Governance* ("ISA 260"), and ISA 210, *Agreeing the Terms of Audit Engagements*, in the development of the Proposed Standard. We believe that the Board's primary objectives to "(1) enhance the relevance and effectiveness of the communications between the auditor and the audit committee and (2) emphasize the importance of effective, two-way communications between the auditor and the audit committee to better achieve the objectives of the audit" have been achieved in the Proposed Standard.[1] It is also important to consider the information audit committees need to conduct their oversight responsibilities. We recommend and encourage the Board to initiate efforts with other groups to develop helpful materials to assist audit committees in understanding how the information provided by the auditor pursuant to the Proposed Standard and other information provided by management can be used in their oversight responsibilities. We believe this will be particularly beneficial to audit committees of smaller companies.

[1] See Release, Page 3.

We have some concerns in the following areas:

- Management Communications with the Audit Committee
- Correlation of Requirements in the Proposed Standard and Other PCAOB Standards
- Requirements in the ISAs, Rule 2-07 of Regulation S-X, and the Extant Standards Not Included in the Proposed Standard
- Consultations
- Clarification of Certain Requirements in the Proposed Standard
- Requirements Embedded in the Release Associated with the Proposed Standard

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 do not hesitate to contact John Fogarty at (203) 761-3227. We thank you for your consideration of these matters.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: Daniel L. Goelzer, Acting PCAOB Chairman
Bill Gradison, PCAOB Member
Steven B. Harris, PCAOB Member
Charles D. Niemeier, PCAOB Member
Martin F. Baumann, Chief Auditor and Director of Professional Standards

Mary L. Schapiro, SEC Chairman
Luis A. Aguilar, SEC Commissioner
Kathleen L. Casey, SEC Commissioner
Troy A. Paredes, SEC Commissioner
Elisse B. Walter, SEC Commissioner
James L. Kroeker, SEC Chief Accountant

Management Communications with the Audit Committee

We share the views of Acting Chairman Goelzer that the communications between the auditor and the audit committee should be "meaningful and robust" to help achieve the objective of the Act to "strengthen the role of the audit committee by placing it squarely at the center of the relationship between a public company and its auditor."[2] We also agree that open dialogue between the auditor and the audit committee enables both parties to perform their jobs more effectively. However, we believe that it is equally important, if not more so, for management to communicate openly and frequently with the audit committee about matters relating to financial reporting because management is ultimately responsible for the preparation and presentation of an entity's financial statements and management has a greater knowledge than the auditor of many matters related to the entity's financial reporting. In practice, management often communicates initially to the audit committee about items such as the accounting policies and practices, the critical accounting estimates and related information, and management's consultations with other accountants. The requirement for the auditor to make communications about such matters provides the opportunity for the auditor to communicate his or her views on these matters, including whether the auditor believes that management's communication is inaccurate or incomplete.

We don't believe, however, that the Proposed Standard necessarily contemplates communications to the audit committee as being primarily management's responsibility. The Note at the end of paragraph 12 for example seems to indicate that management does not have to communicate the items listed to the audit committee and can rely on the auditor to communicate these items on behalf of management. We believe the auditor's communication of such matters should not be in lieu of management fulfilling its responsibility to communicate with the audit committee about relevant information related to the entity's financial statements. We therefore believe that paragraph 12 and certain other requirements in the Proposed Standard should be redrafted in the context of management making the initial communication to the audit committee, and the required auditor's communication about the same matters being incremental and more focused on the auditor's views or judgments about the same matters. This model is utilized in certain requirements in extant AU 380. For example, paragraphs 7 and 8 of extant AU 380 require the auditor to "determine that the audit committee is informed" of specific aspects of significant accounting policies and accounting estimates, respectively. These requirements infer that when management initially communicates these items to the audit committee, the auditor's responsibility to communicate to the audit committee is premised upon the auditor's determination of whether additional information needs to be provided to supplement what has already been communicated by management.

[2] See Statement by Acting Chairman Daniel L. Goelzer at the March 29, 2010, open Board meeting on http:\\www.pcaobus.org.

Furthermore, to eliminate the impression that the auditor's communication to the audit committee of the items in paragraph 12 replaces the need for management's communication of these items, we recommend using the following language in the note associated with paragraph 12, which is similar to the wording used in paragraph 5 of ISA 260:

> Although the auditor is responsible for communicating specific matters in accordance with this standard, management also has a responsibility to communicate matters of interest to the audit committee. Communication by the auditor does not relieve management of this responsibility. Similarly, management's communication of these matters to the audit committee does not relieve the auditor of the responsibility to also communicate them.

The guidance in paragraphs 5 and 11 of extant AU 380 that illustrates management's involvement in relation to the communication of certain matters, including its involvement in the discussion with the audit committee of the quality, and not just the acceptability, of the company's significant accounting policies and practices, is key in describing the correlation between management's communications and the auditor's communications with the audit committee. We therefore recommend that the Board consider including this guidance in the Proposed Standard.

Correlation of Requirements in the Proposed Standard and Other PCAOB Standards

Linkage of evaluation of two-way communications with evaluation of audit committee

We believe the correlation of the requirements in paragraphs 26-28 of the Proposed Standard with requirements in other standards is not clear. We understand the adequacy of the two-way communications between the auditor and the audit committee to be a part of understanding and evaluating the effectiveness of an entity's control environment as described in paragraph 25 of Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* ("AS 5"), for an integrated audit, and a part of obtaining an understanding of a company's control environment as described in paragraphs 23 and 24 of Proposed Auditing Standard, *Identifying and Assessing Risks of Material Misstatement*. We noted the reference to paragraph 25 of AS 5 in footnote 28 of the Proposed Standard; however, no reference is made to paragraphs 23 and 24 of Proposed Auditing Standard, *Identifying and Assessing Risks of Material Misstatement*. Therefore, in addition to the reference to AS 5.25, we recommend that a reference to paragraphs 23 and 24 of Proposed Auditing Standard, *Identifying and Assessing Risks of Material Misstatement*, be added to link the evaluation of the adequacy of two-way communications with the evaluation of the control environment as a whole in a financial statement only audit.

Furthermore, the effect of inadequate two-way communications on requirements in other standards is not clearly identified in paragraph 28 of the Proposed Standard. Inadequate two-way communications could have an effect on an auditor's assessment of the risks of material misstatement, which could in turn affect the nature, timing, and extent of audit procedures performed to address the risks of material misstatement. The effectiveness of internal control could also be altered by inadequate two-way communications. The requirement in paragraph 28 lists three actions that the auditor should consider taking if the inadequate two-way communications cannot be resolved; none of the actions address the potential impact on internal control or the auditor's assessment of the risks of material misstatement. Therefore, in addition to the possible actions already listed in paragraph 28 of the Proposed Standard, we recommend additional considerations be added to consider the potential effect on internal control (e.g., a possible material weakness) and on the auditor's opinion on internal control over financial reporting as well as the auditor's risk assessment.

Communications related to interim financial information

The relationship between the auditor's communications with the audit committee on an interim and annual basis should be reconsidered and clarified by the Board in light of the proposed amendment to paragraph 34 of AU 722, *Interim Financial Information*, as described in Appendix 2. We believe the proposed amendment may result in redundant and/or unnecessary auditor communications to the audit committee on an interim basis for continuing issues that are communicated as part of the annual audit. We also believe that the auditor may be unable to provide the same level of detail for interim communications as compared to the annual communications due to the limited scope of procedures performed during an interim review.

Requirements in the ISAs, Rule 2-07 of Regulation S-X, and the Extant Standards Not Included in the Proposed Standard

We noted requirements in certain ISAs as well as Rule 2-07 of Regulation S-X ("Rule 2-07") and the extant standards that are not included in the Proposed Standard. We believe that the requirements that are contained within the ISAs but omitted from the Proposed Standard are appropriate auditor communications for audits of U.S. public companies and will enhance the effectiveness of the two-way communications between the auditor and the audit committee. Including these requirements will also enhance parity of the PCAOB standards with the ISAs.

Communications from the Principal Auditor

Paragraph 10.d of the Proposed Standard requires the auditor to communicate with the audit committee the roles, responsibilities, and locations of firms participating in the audit while paragraph 10.e requires the communication of the basis for the auditor's determination that he or she can serve as principal auditor. The requirement in paragraph

49 of ISA 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* provides specific items that should be communicated to the audit committee related to the responsibilities of the principal (group) auditor, including an overview of the type of work to be performed on the financial information of the components and an overview of the nature of the principal auditor's involvement in the work to be performed by other firms. We believe this requirement should be added.

Related Parties

We noted that the Proposed Standard does not include a communication with the audit committee specific to significant matters involving related parties. We believe this information is important for effective two-way communications with audit committees, and therefore, we recommend the inclusion of a requirement similar to paragraph 27 of ISA 550, *Related Parties*, which states that "the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties." Examples of significant related party matters are listed in paragraph A50 of ISA 550 and include matters such as non-disclosure (whether intentional or not) by management to the auditor of related parties and the identification of significant related party transactions that have not been appropriately authorized and approved.

Other Material Written Communications

Rule 2-07 requires registered public accounting firms to communicate to the audit committee other material written communications between the registered public accounting firm and the management of the issuer or registered investment company. Rule 2-07 states that other material written communications may include any management letter or schedule of unadjusted differences. We agree that certain requirements in the Proposed Standard should be consistent with Rule 2-07; however, it is not clear whether a requirement exists in the Proposed Standard that is similar to the requirement in Rule 2-07 to communicate other material communications between the auditor and management. In Release No. 33-8183, the SEC lists examples of "other material communications" including management representation letter; reports on observations and recommendations on internal controls; schedule of unadjusted audit differences, and a listing of adjustments and reclassifications not recorded, if any; engagement letter; and independence letter.

We acknowledge that the examples in Release No. 33-8183 are addressed in requirements throughout the current PCAOB standards and the Proposed Standard; however, the SEC states in Release No. 33-8183 that "these examples are not exhaustive." Therefore, we recommend that a requirement be added to the Proposed Standard for the auditor to communicate with the audit committee other material written communications between the auditor and management to capture other possible material written communications that may occur that are not addressed by other requirements. The inclusion of this requirement will also maintain consistency with the requirement in Rule 2-07.

Restricted Use of Communication

We recognize that the requirement to restrict the use of an auditor's written communication with the audit committee about the matters referred to in the Proposed Standard is located in AU 532, *Restricting the Use of an Auditor's Report* ("AU 532") and that the basis for the restriction is that the written communication is a by-product report of a financial statement audit and thus should be considered in that context. However, we believe that the requirement should be copied from AU 532 and included in the Proposed Standard so as to make it very clear that a written communication should contain a restriction on its use.

Corrected and Uncorrected Misstatements

The requirement to request management to correct uncorrected misstatements is excluded from the Proposed Standard. We believe that this might be because of the separation of management and the audit committee of a U.S. public company and the fact that a request to correct misstatements is more appropriately directed to management as opposed to the audit committee. If this understanding is accurate, then we agree with omitting the requirement from the Proposed Standard but we believe that Appendix 3 should reflect this rationale supporting its omission.

We do not believe that the corrected misstatements communicated to the audit committee should include those detected by management. The auditor may not have knowledge of all such adjustments due to the nature of a company's financial statement close process and the timing of the auditor's procedures. It may also not be clear what constitutes a "misstatement" for the purpose of such communication if management's controls identified and corrected the item under consideration on a timely basis. Such a requirement would likely result in the auditor expending significant efforts to identify misstatements that were previously identified by the company's internal controls and financial close process, and we do not believe that the communication of such misstatements by the auditor to the audit committee would significantly enhance the audit committee's oversight of a company's financial reporting.

Consultations

The requirement in paragraph 13.f. to communicate significant accounting matters for which the auditor has consulted outside the engagement team is not clear in terms of the nature and extent of detail about the consultations that need to be communicated with the audit committee. Page 11 of the Release states in relation to this requirement that "This information will benefit the financial reporting process by providing the audit committee with information about complex transactions that may be high risk or controversial." This statement leads us to believe that the intent of the Board was to require the communication of *important* consultations about significant matters rather than the communication of every consultation related to significant matters. The concept of communicating every consultation except for those with the engagement quality reviewer related to significant matters encompasses a potentially wide range of consultations, ranging from background questions that may be posed of a variety of individuals within a firm's consultation network to national office conclusions. Creating a requirement that includes this wide range of consultations will likely increase cost as well as giving rise to the risk of obscuring important matters due to the voluminous amount of information provided. We also believe that the proposed requirement may in fact have the unintended consequence of discouraging consultations from occurring at a more informational level (i.e., because of the resulting requirement to then have to keep track of, and summarize, consultations appropriately so that they can be communicated to the audit committee.) Therefore, we recommend the Proposed Standard provide further clarification as to the intent of this requirement and clarify, through discussion and illustrative examples, the types of consultations that the PCAOB intends to be covered by the scope of the requirement.

Clarification of Certain Requirements in the Proposed Standard

Paragraph 6

The requirement in paragraph 6 to record the understanding of the terms of the audit engagement in an engagement letter does not specifically state that this record of understanding needs to be obtained annually. We recognize that the requirement in paragraph 25 states that the communications in the Proposed Standard, including the engagement letter, should be made annually to the audit committee. However, because the engagement letter is a "mutual understanding of the terms of the audit engagement" between the auditor and the audit committee and not a one-sided communication from the auditor to the audit committee, we believe the requirement to provide the engagement letter annually should have more prominence in the standard. We therefore recommend specifically stating in paragraph 6 that the engagement letter be provided annually. This will emphasize the Board's statement in the Release that "the engagement letter is required to be provided annually."

Paragraph 13.a.i

The language used in paragraph 13.a.i does not seem to clearly communicate the intention of the requirement. Paragraph 13.a.i. requires the auditor to discuss with the audit committee the quality, clarity, and completeness of the company's financial statements, which includes related disclosures. The language in paragraph 11 of extant AU 380 does not include the word "quality" when describing the matters that should be discussed with the audit committee regarding the financial statements (i.e., paragraph 11 discusses only the "clarity and completeness" of the financial statements, while the Proposed Standard indicates the "quality, clarity, and completeness of the company's financial statements"). Based on the discussion in the Release related to this requirement, we do not believe it was the Board's intention to broaden the current requirement in extant AU 380. If the intention of the Board is to retain the current requirement from extant AU 380, then we recommend using the wording in paragraph 11 of extant AU 380 to avoid inadvertently expanding the extant requirement. Furthermore, we noted that the guidance in paragraph 11 of extant AU 380 which states that "objective criteria have not been developed to aid in the consistent evaluation of the quality of an entity's accounting principles as applied in its financial statements" has not been carried over into the Proposed Standard. We believe this guidance is useful in acknowledging that the quality of a company's significant accounting policies and practices is dependent on circumstances specific to the entity and that a universal set of criteria related to quality does not exist, and we therefore recommend its retention in the Proposed Standard.

Requirements Embedded in the Release Associated with the Proposed Standard

As noted in our comment letters to the Board on other Proposed Standards, we are concerned that the Release continues to use the term "should" outside of the Proposed Standard in providing additional information related to the Proposed Standard. It is not clear whether the use of the term "should" in the Release means that those statements which use the term are actually requirements that need to be performed by the auditor in addition to the requirements in the Proposed Standard. For example, the following is provided in the Release in relation to the requirement in the Proposed Standard to communicate to the audit committee in a timely manner:

> "For example, some communications, such as information regarding the audit strategy and the significant risks, *should* be made as early as possible and other matters, such as changes to the auditor's significant risks initially identified *should* be communicated in a timely manner. The auditor *should* communicate certain matters earlier than other matters, and more frequently, depending on the relative significance of the matters noted, the corrective follow-up actions by the audit committee, and other factors. For instance, the auditor *should* communicate significant difficulties with management or other matters that are adversely affecting the progress of the audit as soon as practicable to allow the audit committee to take appropriate action to enable the audit to be completed (emphasis added)."

The use of the term "should" in the Release leads us to question the purpose of the Release and whether it is intended to provide additional non-authoritative guidance related to the Proposed Standard or whether it contains additional requirements that the Board expects to be executed by the auditor. We do not believe the Release is considered authoritative as it is our understanding that the SEC only approves the wording of the Proposed Standard (i.e., the rules of the Board) and not the Release that accompanies it; therefore, we continue to believe that the use of the term "should" in the Release is inappropriate and confusing.[3]

Furthermore, we noted that the Release provides guidance about the requirements of the Proposed Standard that appears to be vital information the auditor needs to know to

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[3] See SEC Release 34-61363, *Order Approving Proposed Rules on Auditing Standard No. 7, Engagement Quality Review, and Conforming Amendment*, January 15, 2010, page 4.

properly comply with the requirements in the Proposed Standard. We believe this guidance is necessary in the Proposed Standard to provide clear meaning as to the Board's intended approach in performing the requirements. We therefore recommend that the Board consider including the following items in the Proposed Standard.

a. Page 8 of Release
In relation to the requirement in paragraph 11 of the Proposed Standard, the Release states that "The proposed standard also includes a requirement for the auditor to communicate, in a timely manner, significant changes to the planned audit strategy or the significant risks initially identified *that may occur during the audit due to the results of audit procedures or in response to external factors, such as changes in the economic environment* (emphasis added)." The latter part of this statement is not included in the Proposed Standard but provides useful guidance as to what factors may cause the need for an auditor to communicate significant changes to the audit strategy.

b. Page 9 of Release
In relation to the requirement in paragraph 10.d. to communicate the roles, responsibilities, and locations of firms participating in the audit, the Release states that "Auditors may use affiliated or network firms, outsourcing arrangements, or non-affiliated firms to perform audit procedures. Communication of these arrangements to the audit committee provides information regarding the parties involved in the audit who will perform audit procedures…." The Release clarifies that the firms referred to in paragraph 10.d. include firms affiliated with the auditor's firm or included in the auditor's firm network. Because this is not specified in the Proposed Standard, the auditor may interpret the requirement to include only communications of the roles, responsibilities, and locations of firms outside his or her firm's network.

c. Page 10 of Release
In relation to the requirement of paragraph 13.a.i. of the Proposed Standard to communicate the auditor's evaluation of the quality, clarity, and completeness of the company's financial statements, which includes related disclosures, the Release states the following: "In making his or her evaluation of the overall quality of the disclosures, therefore, the auditor considers whether all appropriate disclosures are made and whether the disclosures facilitate an investor's understanding of the financial statements and related financial information." If our suggestion to use the language of paragraph 11 in extant AU 380 in place of paragraph 13.a.i in the Proposed Standard is not implemented by the PCAOB, this statement would be helpful in clarifying what items the auditor considers when assessing the quality of the disclosures and would be valuable information in implementing the requirement in the Proposed Standard.

d. Page 18 of Release
In relation to the requirement for the auditor to discuss with the audit committee any significant issues discussed with management in connection with the retention

of the auditor, the Release includes the following statement: “In determining what information to communicate to the audit committee, "retention" is not meant to limit this communication to discussions that occur shortly before reappointment, but could include discussions occurring throughout the auditor's relationship with the company.” If the intention of the Board is to incorporate into the audit committee communication requirement all discussions the auditor has had with management regarding retention (which the statement in the Release seems to indicate), then the scope of the discussions to be communicated that is described in the Release should be included in the Proposed Standard.