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

PCAOB Rulemaking Docket Matter No. 36
Proposed Auditing Standard - Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards

Dear Mr. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2011-005, "*Proposed Auditing Standard - Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*," that includes the proposed standard "*Auditing Supplemental Information Accompanying Audited Financial Statements*" (the Release).

We support the Board's objectives reflected in the proposed standard to enhance the auditing and reporting requirements for supplemental information accompanying audited financial statements required to be submitted to the Securities and Exchange Commission (the SEC). However, we have a number of concerns that we believe the Board should consider prior to issuing a final standard. Our comments are organized as follows:

- Application of the "In Relation To" Concept to the Proposed Required Audit Procedures and Evaluation of the Audit Results
- Applicability of the Proposed Standard and Definition of Supplemental Information
- Reporting

Application of the "In Relation To" Concept to the Proposed Required Audit Procedures and Evaluation of Audit Results

We agree with the Board's decision to retain the existing "in relation to" the financial statements as a whole language in the auditor's report. However, we are concerned that certain aspects of the proposed standard place additional responsibilities on registered public accounting firms that are contrary to the "in relation to" concept.



Office of the Secretary
Public Company Accounting Oversight Board
September 12, 2011
Page 2

Paragraphs 1 and 2 of the proposed standard refer to the auditor being engaged to “audit and report on supplemental information.” Paragraph 4 of the proposed standard describes the procedures to be performed “in the audit of supplemental information.” The insertion of the word “audit” in these examples implies that there is a separate audit of supplemental information, in addition to the audit of the financial statements, which is inconsistent with the “in relation to” concept.

Paragraphs 4d and 4e of the proposed standard require the auditor to “determine that the supplemental information reconciles to the underlying accounting *and other records*” and “perform procedures to test the completeness and accuracy of supplemental information *to the extent that it was not tested as part of the audit of the financial statements*,” respectively. These requirements expand the scope of the auditor’s existing responsibility under PCAOB’s Standards and Related Rules AU Section 551, “*Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*” (AU 551) with respect to information that was not derived from the underlying accounting records. Information not derived from the underlying accounting records, by its nature, is not subject to internal control over financial reporting and likely would not have been subjected to the auditor’s procedures in the audit of the financial statements. We believe that these proposed requirements are contradictory to the “in relation to” approach. We suggest that the Board maintain the “in relation to” approach and maintain the existing requirements of AU 551 to allow registered public accounting firms to apply judgment in the design of its procedures required to comply with the proposed standard. Alternatively, the Board could clarify the nature, timing, and extent of procedures it expects for information not derived from the underlying accounting records.

Paragraph 4f of the proposed standard states that “the auditor should evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any.” Paragraph 10 of the proposed standard goes further to say “If the form and content is prescribed by regulatory requirements or other applicable criteria, the opinion should also address whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria.” While we believe it is necessary for the registered public accounting firm to consider the form and content of the supplemental information and whether it complies with applicable criteria, we do not believe it should be the registered public accounting firm’s responsibility to report on whether the supplemental information complied, in all material respects, with regulatory requirements or criteria. This is consistent with requirements in PCAOB’s Standards and Related Rules AT Section 601 “*Compliance Attestation*” (AT 601), which states that “a report issued in accordance with the provisions of this section does not provide a legal determination of an entity’s compliance with specified requirements. However,



Office of the Secretary
Public Company Accounting Oversight Board
September 12, 2011
Page 3

such a report may be useful to legal counsel or others in making such determinations.” We believe that the proposed standard would require a registered public accounting firm to make such a legal determination. This enhanced reporting requirement could be construed as elevating the registered public accounting firm’s responsibilities to that of an attorney. We recommend that the Board omit this proposed addition to the auditor’s reporting. Should the Board determine to retain this aspect of the auditor’s reporting, we recommend that the Board permit the auditor to include a sentence in the auditor’s report stating that the report does not provide a legal determination as to compliance, similar to the sentence included in reports pursuant to AT 601.

The example auditor’s report on supplemental information included in the proposed standard states that “the [identify supplemental information] is fairly stated, in all material respects, in relation to the financial statements as a whole, *and accordingly [emphasis added]*, its form and content comply, in all material respects, with the relevant regulatory requirements.” Notwithstanding our comment on whether it is appropriate for the auditor to opine on whether the form and content of the information complies with the relevant regulatory requirements, we question the use of the word “accordingly” in the sentence in the example auditor’s report. We do not believe that the form and content statement is dependent on the statement with regard to whether the information is fairly stated in relation to the financial statements. Therefore, if the Board retains the statement with regard to form and content, the Board should delete the word “accordingly.”

Applicability of the Proposed Standard and Definition of Supplemental Information

The proposed standard includes a definition of supplemental information when it accompanies audited financial statements. We believe the definition of supplemental information and the related discussion included in the Release do not sufficiently describe the type of information addressed by the proposed standard. For example, it is not clear whether supplemental information included in annual reports of employee stock purchase, savings and similar plans filed on Form 11-K would be included within the scope of the proposed standard. Additional uncertainty with regard to scope is introduced in footnote 5 of Appendix 3 of the Release with the reference to “audits of investment companies that file with the SEC” as being specifically excluded from the definition of supplemental information, but does not include discussion regarding the exclusion of other schedules required by SEC Regulation S-X for commercial companies that appear to not be within the scope of the proposed standard. We believe the definition of supplemental information should be further clarified, perhaps by including additional examples and/or exclusions.



Office of the Secretary
Public Company Accounting Oversight Board
September 12, 2011
Page 4

Reporting

Appendix 3 to the Release provides that “in audits of brokers and dealers, misstatements in supporting schedules might be indicative of material non-compliance as a material weakness in internal control over compliance.” The proposed standard, however, does not discuss the consideration of internal control over compliance or the implications of material weaknesses over compliance to other aspects of the financial statement audit of the broker or dealer. It would be helpful if the Board would further explain the reasons the Board included this statement in the Release.

Paragraph 9 of the proposed standard states that the “auditor should consider the effect of any modifications to the audit report on the financial statements when evaluating whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole,” but does not give any further guidance in evaluating the reporting consequences for supplemental information in these circumstances. AU 551 specifically addresses the auditor’s reporting requirements on supplemental information if the auditor’s report on the financial statements contains an adverse opinion or disclaims an opinion. We suggest that the Board provide clear guidance to registered public accounting firms, while furthering the Board’s objective of maintaining the “in relation to” concept, to address the reporting requirements for supplemental information when modifications have been made to the audit report on the financial statements.

The proposed standard does not include a requirement for the following statements to be included in the auditor’s report on supplemental information which are included in AU 551:

- A statement that the audit has been performed for the purpose of forming an opinion on the basic financial statements taken a whole, and
- A statement that the supplementary information is the responsibility of management.

We believe, given the Board’s intent to maintain the “in relation to” approach to auditing and reporting on supplemental information in relation to the financial statements taken as a whole, that the Board should include these requirements in the reporting requirements, or clarify the Board’s rationale for excluding these requirements.

The proposed standard includes an example of an auditor’s opinion on supplemental information when included in the auditor’s report on the financial statements, but does not include an example opinion when the auditor issues a separate report on the supplemental information. We believe the Board should consider including an example separate report in the final standard.



Office of the Secretary
Public Company Accounting Oversight Board
September 12, 2011
Page 5

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We appreciate the Board's careful consideration of our comments. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, sranzilla@kpmg.com, or Tom Ray, (212) 909-5095, tray@kpmg.com.

Very truly yours,

KPMG LLP

cc:

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