



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

12 September 2011

RE: PCAOB Rulemaking Docket Matter No. 036, *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards*

Dear Sir:

We appreciate the opportunity to respond to the Public Company Accounting Oversight Board's (the "Board") *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the "proposed standard" or "proposal").

Overall, we support the proposed standard and believe it will provide a consistent framework for work performed by the auditor on supplemental information. Additionally, we support the Board's effort to strengthen the coordination of the auditor's work on supplemental information with the work performed in connection with the financial statement audit, where appropriate. However, we believe that further consideration of the following areas will improve the proposed standard. In the remainder of our letter, we have organized our observations into the following topical areas:

- Evaluation and reporting of audit results
- Definition of supplemental information

Evaluation and reporting of audit results

Paragraph 10(e) of the proposed standard requires the auditor's opinion to address "...whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria," where applicable. We believe this requirement inappropriately goes beyond the auditor's objective, as stated in paragraph 2 of the proposed standard, "to express an opinion on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole." In addition, we believe this requirement is inconsistent with the following statements included in the proposal:

- Appendix 3, page 7 states, "The proposed standard requires the auditor to evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any, because such compliance is important to the auditor's evaluation of whether the supplemental information is *'fairly stated'* (italics added)."



- Appendix 3, page 8 states "In the context of supplemental information, the phrase '*fairly stated*' (italics added), in all material respects, in relation the financial statements as a whole' includes, among other things, that the supplemental information:
 - Reconciles to the underlying accounting and other records, or to the financial statements, as applicable;
 - Is complete and accurate;
 - Complies with the relevant regulatory requirements or other applicable criteria, if any."
- Paragraph 4(f) of the proposed standard requires the auditor to "evaluate whether the form and content of the supplemental information comply with the relevant regulatory requirements or other applicable criteria, if any" as part of the audit of supplemental information, and such work is performed in reaching the conclusion that the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Consistent with the above, we believe it is appropriate for the auditor to consider the form and content of the supplemental information and whether it complies with the relevant regulatory requirements or other applicable criteria, if any, for purposes of determining whether the supplemental information "is fairly stated, in all material respects, in relation to the financial statements taken as a whole." However, we are concerned that the separate opinion discussed in paragraph 10(e) that states, "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" goes beyond an "in relation to" opinion and is, in fact, more consistent with the opinion expressed in an examination engagement performed in accordance with AT 601, *Compliance Attestation*. Considering the procedure required in paragraph 4(f), it is also unclear what additional procedures the Board would consider are necessary in order to report on compliance with the relevant regulatory requirements or other applicable criteria separately.

We also suggest that paragraph 9 of the proposed standard be revised to include guidance from paragraph 10 of extant AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*. Specifically, although such situations might be uncommon, we believe it would promote consistency in reporting to explicitly state that when the auditor has issued an adverse opinion or disclaims an opinion on the basic financial statements, he should not express an opinion on the supplemental information. Likewise, the proposed standard should include the discussion in Appendix 3, page 9 that states "For example, if the auditor's report was qualified because of a material departure from GAAP relating to a particular account or disclosure, the auditor's report on supplemental information related to that account or disclosure would require qualification." Finally, illustrations of other reporting situations would promote consistency in reporting.

Definition of supplemental information

We note that the proposed standard defines supplemental information only as information accompanying audited financial statements filed with the SEC. We are aware of situations when public companies issue supplemental information outside of the SEC filing. For example, a company may reissue its financial statements filed with the SEC and include consolidating information, subsidiary-specific information, or information used to calculate financial ratios as supplemental information to satisfy a bank or other contractual agreement or a requirement or request of a state or other regulator. In some cases, the need for the supplemental information does not exist, or the company is unaware of it, when the financial statements are issued (for example, a requirement is triggered when the company files an application to



conduct certain business in a state, or the supplemental information is agreed to satisfy a regulator request). Since the company is a public company, the audit of the financial statements is conducted in accordance with PCAOB standards; therefore, the audit of the supplemental information would typically be conducted in accordance with PCAOB standards. The aforementioned examples would not meet the proposed definition of supplemental information, however, and since AU 551 would be superseded when the proposal is adopted, it appears that none of the Board's standards would cover these situations. We do not believe this was the intent of the Board; therefore, we recommend that the Board clarify the definition of supplemental information so that in situations when the supplemental information is not filed with the SEC, the proposed standard is still applicable.

In addition, where the "in relation to" report on supplemental information is issued after the initial issuance of the financial statements, particularly to the extent where the requirement for the supplemental information does not exist or is unknown to the company at the time of the issuance of the financial statements, there are various places in the standard that the current language might not be applicable or appropriate. For example:

- The note to paragraph 3(c) states "The procedures performed regarding the supplemental information should be planned and performed in conjunction with the audit of the financial statements." The Board should consider clarifying that this should occur when the auditor is aware of the supplemental information at the time the audit of the financial statements is planned and performed.
- Paragraph 10(b) requires the auditor's report to include "A statement that the supplemental information has been subjected to audit procedures performed in conjunction with the audit of the financial statements." The Board should consider clarifying that this language should be included in the report when the auditor is aware of the supplemental information and performed procedures concurrent with the audit of the financial statements.
- The illustrative report in paragraph 13 includes the statement "Our procedures also included evaluating the form and content of the [supplemental information.]" Notwithstanding our observation above regarding this separate conclusion, the Board should consider clarifying that certain supplemental information may not be subject to a prescribed "form and content".

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Brian R. Richson (973-236-5615) or Marc A. Panucci (973-236-4885) regarding our submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Marc A. Panucci" followed by a stylized flourish.