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October 18, 2010

Securities and Exchange Commission
100 F St., N.E.
Washington, D.C. 20549-1090

Attn: Elizabeth M. Murphy, Secretary

Re: File Number PCAOB-2010-01: Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards

Deloitte & Touche LLP appreciates the opportunity to provide comments on the auditing standards related to the auditor's assessment of, and response to, risk (the "risk assessment standards") and accompanying release issued by the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") and filed with the Securities and Exchange Commission (the "Commission").

We acknowledge the PCAOB's efforts taken over the past two years to revise its interim risk assessment standards. The risk assessment standards contain many of the core principles of an audit of financial statements and therefore are likely to play a foundational role in the development of the PCAOB's future auditing standards. On balance, we are supportive of the Commission's approval of the standards as adopted by the PCAOB on August 5, 2010. However, we believe it is appropriate to reiterate our concerns, which we have previously communicated to the PCAOB in our comment letters,¹ about certain facets of its standards and its standard-setting processes.

We are particularly concerned with the proliferation of overly prescriptive, detailed lists of required procedures within the risk assessment standards. The content of many of these lists is sourced from the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) and the Statements on Auditing Standards (SASs) issued by the AICPA's Auditing Standards Board's (ASB). However, in the ISAs and the SASs, the lists of procedures are included in the application guidance as procedures the auditor **may** consider when determining how to apply a higher-level requirement. As a result, the auditor is enabled to apply professional judgment in determining which procedures are relevant and appropriate to perform in the context of each individual engagement. On the other hand, the risk assessment standards do not provide an opportunity for such judgment, but rather mandate that the auditor perform detailed procedures which may not be relevant to

¹ See Deloitte & Touche LLP comment letters submitted to the PCAOB on its initial and revised proposed standards at http://pcaobus.org/Rules/Rulemaking/Docket%20026/018_D_and_T.pdf and http://pcaobus.org/Rules/Rulemaking/Docket%20026/012b_DT.pdf

the audit engagement. One significant drawback to the approach taken in the risk assessment standards is that the auditor will inevitably have to take time and resources away from focusing on the identified key risk areas in order to document, for each procedure or item on the list, why it does not apply to the engagement. In addition, an unintended consequence of this approach may be that these long lists of specific procedures create a “check the box” mentality, in which a focus on compliance with the list may prevail over the application of well-reasoned professional judgment in determining the most appropriate and effective audit procedure. The purpose of recasting these lists of considerations as requirements appears to be to facilitate inspections, but we are concerned that this may have the unintended consequence of diminishing audit effectiveness by undermining the application of professional judgment.

The example provided above demonstrates the PCAOB’s consideration of, but divergence from, the standards of the IAASB and ASB in developing its risk assessment standards. It is also useful in highlighting concerns we have related to the standard-setting process in general, including:

- Divergence from other auditing standard-setting bodies
- Lack of transparency in the standard-setting process
- Unclear drafting conventions employed by the PCAOB in its auditing standards.

Divergence from other auditing standard-setting bodies

In previous communications with the Commission and the PCAOB, we have expressed our support for the PCAOB’s convergence of its auditing standards with the standards of the IAASB and ASB. We take this opportunity to again communicate our strong support for convergence.

The ISAs and the SASs have recently undergone revision and redrafting as part of comprehensive “clarity projects” to update and strengthen auditing standards. These projects followed due process, including public exposure. The ISAs are used worldwide as the basis for the majority of non-U.S. public company audits conducted. The standards are developed by a board composed of practitioners and non-practitioners, with key regulators (including the PCAOB) invited to participate at the IAASB’s meetings where the ISAs are developed. The ISAs are subject to due process and public consultation as they are developed. In addition, a significant number of auditing firm networks (including the largest networks) use the ISAs as the basis for their global audit policies and methodologies, supplemented as local auditing standards and regulations necessitate.

The benefits of convergence include enhancing the effectiveness and efficiency with which standards are widely understood, implemented, and applied, particularly for multilocation engagements where part of the work is performed outside the United States. This includes use of common terminology which would help to reduce misinterpretation or misapplication of the standards. Further, we believe that minimizing differences in auditing standards will help foster cross-border cooperation and effectiveness.

While we acknowledge the Board’s statutory mandate may drive some differences between the PCAOB’s standards and those of the IAASB and ASB, we believe that in both form and substance, the auditing standards of the PCAOB could and should converge with the ISAs in many areas.

Lack of transparency in the standard-setting process

We believe that transparency in the standard-setting process facilitates a stronger understanding

of the objectives of, and rationale for, the standards that are developed. As noted above, we believe that differences between PCAOB standards and the ISAs and SASs should occur only when there are issues particular to audits of public companies in the United States for which unique requirements or standards need to be developed. The risk assessment standards clearly reflect a consideration of the ISAs and SASs, but equally clearly reflect divergence from the ISAs and SASs in substantive ways (e.g., different requirements) as well as in structural ways (e.g., terminology, format of standard). What is less clear is the rationale for the PCAOB's decision to diverge in certain areas from the ISAs and the SASs, as well as from its own existing standards. In this respect, we believe transparency could be improved.

As part of the PCAOB's standard-setting process, we believe making publicly available, at the same time as, or before, the public exposure of a proposed standard, matrices showing (1) differences between the PCAOB's proposed standard and the equivalent ISA or SAS, if any and (2) differences with the PCAOB's existing standard, if any, would improve transparency. These matrices would also include detailed commentary on the reasoning for these differences, and clearly articulate the PCAOB's vision for expected change in practice.

While we strongly support the inclusion of Appendices like Appendix 11, *Comparison of the Objectives and Requirements of the Accompanying PCAOB Auditing Standards with the Analogous Standards of the International Auditing and Assurance Standards Board and the Auditing Standards Board of the American Institute of Certified Public Accountants* in the release accompanying the risk assessment standards, currently that appendix does not provide a complete or accurate comparison. Rather than comparing the PCAOB standard with the ISA and SAS in their entirety, it compares only the requirements and objectives, and eliminates from comparison the guidance provided in each standard. A robust, complete, comparison of the standards would more fully inform readers about the PCAOB's intent in creating differences between the ISAs and SASs and its own existing standards. This would be particularly helpful for those networks whose global policies and methodologies use the ISAs as their basis.

We believe an increase in transparency in the manner described above will contribute to a higher level of audit quality, where the auditor can clearly determine what actions to take that are different or additional when performing the audit in accordance with the standards of the PCAOB.

Unclear Drafting conventions employed by the PCAOB in its auditing standards

Under the Board's Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, ("Rule 3101") the auditor is required to fulfill specific responsibilities within an auditing standard based on use of the words "must" or "should" (i.e., an "unconditional" or a "presumptively mandatory" responsibility, respectively). In order for the auditor to demonstrate that he or she has fulfilled these responsibilities, and to comply with Auditing Standard No. 3, *Audit Documentation*, he or she must have appropriate documentation within the working papers demonstrating what procedures were performed relative to each instance of a "must" or a "should."

The risk assessment standards contain numerous instances where the present tense is used to describe an auditor action. For example, the auditor is required to obtain an understanding of the entity. That requirement is followed by a listing of activities that obtaining an understanding "includes." Use of the present tense, which is not covered in Rule 3101, undermines the understandability of the standards (i.e., it is now not clear whether a requirement is being created or not). The present tense statements included in the risk assessment standards often have been taken from guidance in the ISAs (which use the conditional terminology that the auditor "may" do something based on his or her professional judgment). Transforming this guidance into present tense statements results in a lack of

clarity about the intended meaning; this ambiguity provides another reason for converging with the ISAs in both form and substance.

We are concerned that writing standards with unclear application of Rule 3101 will significantly affect audit quality and how audit work is assessed by the PCAOB (through its inspection process) and others (e.g., in the litigation context). Applying the rule consistently in developing future auditing standards is important.

We 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 Bob Kueppers at 212-492-4241 or John Fogarty at 203-761-3227. We thank you for your consideration of these matters.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: SEC

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