

August 26, 2008

Securities and Exchange Commission
Attn: Florence Harmon, Acting Secretary
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: **Release No. 34-58259; File No. PCAOB-2008-01**
Public Company Accounting Oversight Board; Notice of Filing of Proposed Rule on
Auditing Standard No. 6, *Evaluating Consistency of Financial Statements and Conforming
Amendments* (“AS No. 6” or the “standard”)

Dear Ms. Harmon:

We appreciate the opportunity to provide comments to the Securities and Exchange Commission (the “Commission” or the “SEC”) on the above referenced filing by the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”). Overall, we are supportive of the standard as approved by the PCAOB on January 29, 2008 and support the Commission’s approval of the standard. However, we continue to have concerns regarding certain issues that were not adequately addressed in the PCAOB-approved standard, as discussed below.

First, we continue to believe it is important for the PCAOB to adopt a rule that addresses the auditor’s responsibility with respect to maintaining the confidentiality of client information obtained in connection with performing engagements under PCAOB standards.¹ Access to client information as well as candid and forthcoming communications between the client and the auditor, is vital to performing quality audits in an appropriate and efficient manner. Without clear recognition in the PCAOB standards of the auditor’s professional responsibility with respect to the confidentiality of client information, audit committees, companies, and non-U.S. regulators may unnecessarily question the auditor’s responsibility in this regard under PCAOB standards, and, as a result, companies may be reluctant to share information with the auditor that is critical to the execution of audit procedures and the formation of related conclusions. While we recognize that the AICPA Code of Professional Conduct (which includes professional responsibilities related to the confidentiality of client information) still applies to all members of the AICPA, and that some State Boards of Accountancy may have similar provisions, it is not clear that all accountants who perform engagements in accordance with PCAOB standards continue to maintain their AICPA memberships. Additionally, as the PCAOB recognizes in footnote 26 of its January 29, 2008 Release, not all states have adopted the Uniform Accountancy Act, and while some states have a

¹ Paragraph 4 of AU Section 431 currently discusses the auditor’s responsibility with respect to maintaining the confidentiality of client information. The Board, when adopting its interim standards, did not adopt Rule 301 of the AICPA’s Code of Professional Conduct. Through the conforming amendments of AS No. 6, the Board is proposing to eliminate paragraph 4 of AU 431 and the reference to Rule 301.

confidentiality requirement others may not. As a result, the extent and uniformity in state requirements is unclear.

Also, as noted in the PCAOB's January 29, 2008 Release, the International Federation of Accountants, through its Code of Ethics for Professional Accountants, has in place a rule regarding confidentiality of information acquired as a result of professional and business relationships. As a result, the omission of a PCAOB rule regarding confidentiality of client information is at odds with efforts toward, and recognized advantages of, convergence of global standards and the development of a single set of high quality standards.² As Chairman Cox has explained, "...we need to harmonize, recognize, and standardize. We should begin by harmonizing our regulatory principles and focusing on our mutual objectives...That will help reduce friction between our domestic markets, and to reduce costs for investors and every marketplace participant."³ Just as international accounting standards help investors compare investment options across jurisdictions, harmonized auditing and related ethics and professional standards promote the needs of investors for consistent audit quality across jurisdictions.

Further, we note that the confidentiality of client information is an important consideration in reaching cooperative arrangements between U.S. and non-U.S. regulators with respect to the oversight of auditors. *See, e.g.*, Directive 2006/43/EC, art. 47(1)(d), 2006 O.J. (L 157) 87 (EC) which requires, as a condition of EU audit firms sharing audit working papers with third country regulators (such as the PCAOB), that there be "working arrangements on the basis of reciprocity agreed between the competent authorities concerned." Incorporating a provision in the Board's rules that addresses confidentiality of client information should facilitate the formation of such working arrangements.

For the reasons discussed above, we continue to believe that rather than removing paragraph 4 of AU 431 and the reference to Rule 301 through the conforming amendments of AS No. 6, paragraph 4 of AU 431 should be retained, and the PCAOB should adopt a rule establishing unequivocally the auditor's responsibility with respect to maintaining the confidentiality of client information. We implore the SEC to encourage the PCAOB to adopt such a rule. The auditor's responsibility with respect to the confidentiality of client information under PCAOB standards needs to be readily apparent to non-U.S. regulators, audit committees, companies, and auditors alike.

Second, we continue to believe AS No. 6 and the related conforming amendments are inconsistent with the PCAOB Staff Questions and Answers, *Adjustments to Prior-Period Financial Statements Audited by a Predecessor Auditor* ("Staff Questions and Answers"). We noted this inconsistency in our original May 18, 2007 comment letter to the PCAOB, and contrary to the Board's statement in footnote 28 of its January 29, 2008 Release, there continue to be contradictions between AS No. 6 conforming amendments and the Staff Questions and Answers. For instance, AU 508.69 as revised under the AS No. 6 conforming amendments will now require the following:

²International standards are intended to "facilitat[e] the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession." *See* Int'l Auditing & Assurance Standards Bd., *Terms of Reference* ¶¶ 1.0-3.0 (Mar. 2006).

³ Speech by SEC Chairman Christopher Cox, "Learning from Shogun – Toward IOSCO's Vision of a Global Market," November 8, 2007.

If, in an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period, the auditor should disclose all the substantive reasons for the different opinion in a separate explanatory paragraph(s) preceding the opinion paragraph of his or her report. The explanatory paragraph(s) should disclose (a) the date of the auditor's previous report, (b) the type of opinion previously expressed, (c) **if applicable, a statement that the previously issued financial statements have been restated for the correction of a misstatement in the respective period,** (d) the circumstances or events that caused the auditor to express a different opinion, **if applicable, a reference to the company's disclosure of the correction of the misstatement** and **the fact** that the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements. The following is an example of an explanatory paragraph that may be appropriate when an auditor issues an updated report on the financial statements of a prior period that contains an opinion different from the opinion previously expressed... [Example excluded from this excerpt. Bolded and underlined words represent changes to AU 508.69 based on the conforming amendments in AS No. 6.]

Comparing the above excerpt to Staff Questions and Answers Q9 (which relates to an updated report in which the opinion is different from the opinion previously expressed because of the correction of an error), we note that an explanatory paragraph containing the elements required by AU 508.69 is not included in the report example in Staff Questions and Answers Q9.

Another inconsistency relates to AU 508.73, which states that if the auditor revises the report, he or she should dual-date the report. A change from an unqualified opinion to a qualified opinion⁴ should be treated as a revision to the report and, accordingly, the auditor's report should be dual-dated under AU 508.73. Yet Staff Questions and Answers Q10 (which relates to the situation in which the predecessor auditor is revising its report and issuing a qualified opinion) states that the auditor should use the same date as the original report, even though the auditor did not conclude at such date that there was a departure from generally accepted accounting principles. Additionally, the Staff Questions and Answers use the phrase "correction of an error" rather than the terminology in AS No. 6 of "correction of a misstatement."⁵

Even though we presume that the guidance in the standard would override the Staff Questions and Answers, to avoid needless confusion, the Staff Questions and Answers should be updated to reflect the new requirements under the amended AU 508.

Lastly, while overall we are supportive of the standard, we believe implementation questions and issues will arise that may have been avoided if the remainder of the recommendations in our comment letter to the PCAOB dated May 18, 2007 had been incorporated. Particularly, to assist with the implementation and understanding of new standards, we continue to urge the PCAOB when proposing or issuing a new standard to 1) provide a section in the release that specifically discusses the expected changes in practice (similar to the format provided by the Financial Accounting Standards Board in its standards) and 2) when issuing conforming amendments to PCAOB standards, provide a mark-up of the full text of the standards (with conforming additions underlined and deletions stricken-through). Providing both of these will enhance the auditor's

⁴ A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles. (AU 508.10)

⁵ Also refer to additional inconsistencies discussed on page 3 of our May 17, 2007 comment letter to the PCAOB.

understanding of proposed and adopted changes and will improve the effectiveness and efficiency of the implementation process.

If you have any questions or would like to discuss our views further, please contact James Schnurr at (203) 761-3539, Guy Moore at (203) 761-3226, or Stephen Coulter at (203) 761-3766.

Sincerely,

/s/ Deloitte & Touche LLP

cc:

SEC

Chairman Christopher Cox
Commissioner Luis A. Aguilar
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