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May 3, 2004

Mr. Jonathan G. Katz
Office of the Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C.

Dear Mr. Katz:

Re: File No. PCAOB 2003-10; PCAOB Proposed Auditing Standard No. 1, References in Auditor's Reports to the Standards of the PCAOB

Dear Mr. Katz:

Deloitte & Touche LLP is pleased to respond to the request for comments from the Securities and Exchange Commission (the "SEC") regarding the filing by the Public Company Accounting Oversight Board (the "PCAOB" or the "Board") of its Proposed Auditing Standard No. 1, *References in Auditor's Reports to Standards of the PCAOB*, PCAOB Rulemaking Docket Matter No. 010 (the "Proposed Standard").

While we do not object to the approval of the Proposed Standard, we continue to be concerned about specific transitional and application issues. Our first concern relates to audits of equity investments, which will be an immediate issue as soon as the Proposed Standard is effective; we believe the resolution of this issue lies solely within the jurisdiction of the SEC. Our second concern relates to initial public offerings, which becomes a problem with the passage of time. Again, we believe the resolution of the second issue lies solely within the jurisdiction of the SEC. Our third concern relates to providing clear language in the auditor's report. Because we recognize the first two issues as solely within the jurisdiction of the SEC, we do not oppose the approval of the Proposed Standard. However, we believe it is important for the SEC to consider each of these issues, as described below, particularly the equity investment issue.

1) Inability of issuers and auditors to influence audits of equity investments

Based on the guidance in the Board’s release, the Proposed Standard would require, in all cases, that the auditor’s report of an issuer state the audit was conducted in accordance with standards of the PCAOB. No additional guidance is provided in the Proposed Standard with respect to nonpublic equity investments that are audited in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants (“GAAS”). In many situations, the issuer may not have the ability to influence the standards followed in auditing the equity investee or the audit firm chosen to conduct the audit of an equity investee. The audit firm of the issuer is also powerless in determining the standards followed and the audit firm chosen with respect to equity investments.

Accordingly, at the point the Proposed Standard is finalized, auditors of issuers with material equity investments in nonpublic entities that are audited in accordance with GAAS will not be able to complete their audit in compliance with the Proposed Standard (i.e., auditors of issuers would not be able to state in the auditor’s report that the audit was conducted in accordance with standards of the PCAOB when a material equity investment was audited in accordance with GAAS). Matters would be further complicated if the equity investment is audited by an unregistered firm (i.e., management of an equity investment may believe it does not need to have a registered firm perform the audit if the investments held by public entities are insignificant to the overall ownership of the equity investment). Under such circumstances, a conflict with PCAOB registration rules may arise if the equity investment is individually material to the issuer investors and constitutes a substantial portion of the audit of the issuers.

We believe the SEC could resolve this immediate problem in one of three ways: 1) permit equity investments to be audited in accordance with GAAS and require the principal auditor when dividing responsibility to explicitly state the equity investment was audited in accordance with GAAS; 2) permit the auditor to include a scope limitation in the auditor’s report with respect to equity investments audited under GAAS; or 3) determine a method by which the SEC may compel nonpublic companies that constitute material equity investments of issuers to be audited in accordance with auditing standards of the PCAOB.

Of the three options above, we believe the most logical and feasible resolution is to permit the principal auditors to divide responsibility with the other auditors; however, under this approach the SEC would need to allow the other auditor’s report to be included in the issuer’s SEC filing even though it refers to GAAS.

2) Applicability in an initial public offering

In our comment letter to the PCAOB, we expressed concern that the Proposed Standard did not address applicability to initial public offerings. Although in its release of the Proposed Standard the Board added some discussion regarding applicability to initial public offerings, we believe further clarification by the SEC is required.

Our central concern relates to the appropriate and acceptable reference to standards in the auditor's report in future years when an entity decides to have an initial public offering and one or more of the following facts exist:

- Audits of the financial statements (for periods subsequent to the formation of the PCAOB) that would be required to be included in the registration statement were conducted in accordance with GAAS rather than PCAOB standards and there is divergence between the two sets of standards
- Audits of financial statements for one or more periods that would be required to be included in the registration statement were conducted by an audit firm that was not registered with the PCAOB during any or all periods included, and, as such, was not subject to PCAOB oversight and inspection procedures for such periods

The Proposed Standard is silent both to the treatment of GAAS audits performed subsequent to April 25, 2003, and situations involving unregistered firms. Although in the first situation, we believe that it might be inferred from the text of the Board's release that a reaudit of some kind is necessary, we believe that it should be explicitly stated. We recommend that the SEC address such matters, including:

(1) in the first situation above, whether the auditor will be required to determine what the differences were between GAAS and PCAOB standards for each of the periods and whether the auditor will be required to extend the original audits to encompass any additional procedures. In some cases, however, it might not be possible to perform additional procedures after the fact.

(2) In the second situation above, whether a firm that becomes registered after the initial PCAOB registration period can report as a registered firm on periods prior to becoming registered, even though they were not subject to the oversight and inspection of the PCAOB (i.e., consistent with the initial registration treatment upon formation of the PCAOB) or whether the entity will be required to hire a registered firm to reaudit such prior periods.

These matters should be resolved appropriately in consideration of potential barriers that may be created for companies entering the capital markets and the impact such barriers may have on the marketplace.

3) Use of the phrase “standards of the PCAOB” in the auditor’s report rather than “auditing standards of the PCAOB”

Under the Proposed Standard, the auditors' report would state that the audit was conducted under the “standards of the PCAOB.” The Board clarified in its release that it intentionally referred to “standards of the PCAOB” and that this phrase refers to “those auditing and related professional practice standards that are applicable to the particular engagement” (PCAOB Release No. 2003-025, p. 7). We believe use of the phrase “standards of the PCAOB” is too ambiguous and could create confusion among the public with respect to the PCAOB's oversight of both registered and unregistered audit firms that

conduct audits of nonpublic entities in accordance with PCAOB *auditing* standards. Readers of the auditor's report will likely assume that any audit firm referring to the "standards of the PCAOB" is registered with the PCAOB and that the firm as well as the particular audit engagement is subject to the quality control, inspection, and oversight of the PCAOB.

We believe the best way to prevent confusion among the general public is to require the auditor's report, in all cases where an audit is performed under the auditing standards of the PCAOB, to state that the audit was conducted in accordance with the *auditing* standards of the PCAOB. If such recommendation is not adopted, we believe the Proposed Standard should require that both registered and unregistered firms that voluntarily perform an audit for a nonpublic entity under the auditing standards of the PCAOB specifically refer to "the auditing standards of the PCAOB" in their reports rather than the broader term "standards of the PCAOB."

We appreciate the opportunity to comment, and would be pleased to discuss these issues with you further. If you have any questions or would like to discuss these issues further, please contact Robert J. Kueppers at (203) 761-3579 or John A. Fogarty at (203) 761-3227.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: Chairman William H. Donaldson
Commissioner Cynthia A Glassman
Commissioner Harvey J. Goldschmid
Commissioner Paul S. Atkins
Commissioner Roel C. Campos

William J. McDonough, Chairman of the PCAOB
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Member
Charles D. Niemeier, Member