



September 12, 2011

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

**Re: Request for Public Comment: Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards**

Dear Office of the Secretary:

The Center for Audit Quality (“CAQ”) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors’ objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, D.C., the CAQ is affiliated with the American Institute of Certified Public Accountants (“AICPA”).

The CAQ appreciates the opportunity to provide feedback on the Public Company Accounting Oversight Board’s (the “PCAOB” or the “Board”) Rulemaking Docket Matter No. 036, *Proposed Auditing Standard for Auditing Supplemental Information Accompanying Audited Financial Statements and Related Amendments to PCAOB Standards* (the “Proposed Standard”). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

We are supportive of the PCAOB’s efforts to increase investor transparency into the work performed by auditors on supplemental information accompanying the audited financial statements and to promote coordination between this work and the work performed on the financial statement audit. We agree that the “in relation to” concept best serves these objectives, but we are concerned that the Proposed Standard changes the existing meaning of an “in relation to” opinion and extends the auditor’s responsibilities well beyond those required to provide such an opinion. Accordingly, we do not support the issuance of the Proposed Standard as currently drafted.

We offer several observations to illustrate our concerns and have organized these observations around the following topical areas:

- “In Relation to” Opinion
- Procedures
- Evaluation and Reporting of Audit Results

***“In Relation to” Opinion***

The auditor’s report on supplemental information is currently covered by the PCAOB’s interim standard AU Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (“AU 551”), and is based on the concept that the auditor reports on supplemental information in relation to the financial statements as a whole. The “in relation to” framework for this type of reporting is well established and was recently reaffirmed by the AICPA when it issued Statement on Auditing Standard 119 (“SAS 119”), *Supplementary Information in Relation to Financial Statements as a Whole*, to replace AICPA AU Section 551 for private companies.

We agree with the Board’s decision to maintain the “in relation to” concept in the Proposed Standard. We believe that the “in relation to” opinion as it exists in AU 551 provides users of supplemental information with sufficient benefit when compared to the increased cost of a standalone approach and that this form of opinion should be retained.

We are concerned, however, that certain aspects of the Proposed Standard alter the objective of AU 551 and extend the scope of the auditor’s responsibilities beyond those required to provide an “in relation to” opinion. The specific observations we make in this letter are not intended to be all inclusive, but represent, in our view, several significant examples of how the Proposed Standard is inconsistent with an “in relation to” framework.

To illustrate, paragraphs 1 and 2 of the Proposed Standard refer to the auditor being engaged to “audit and report on supplemental information.” In addition, when introducing the procedures to be performed with respect to the supplemental information, paragraph 4 of the Proposed Standard also uses the term “audit of supplemental information.” The insertion of the word “audit,” coupled with the addition of certain procedures described below, 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 in AU 551 (and SAS 119).

If the Board has determined that a higher level of assurance should be required for certain forms of supplemental information, we suggest that the Board consider alternate frameworks for reporting on this information (e.g. AU Section 623, *Special Reports*, (“AU 623”)) rather than change the established meaning of the “in relation to” opinion for all types of supplemental information covered by the Proposed Standard.

***Procedures***

We support the Board’s decision to articulate in the Proposed Standard the nature of the procedures performed by the auditor when reporting on supplemental information in relation to the financial statements as a whole. We believe that the inclusion of such procedures in the Proposed Standard would benefit investors and other users of supplemental information by describing the auditor’s responsibilities when reporting under the Proposed Standard. However, we believe that certain of these procedures, along with the expanded reporting requirements noted below, are inconsistent with the objective of an “in relation to”



approach and position the auditor's work and reporting on supplemental information as a separate engagement.

Paragraph 3 of the Proposed Standard implies that the auditor would separately consider and document audit planning considerations (e.g., the nature, timing and extent of audit procedures and the risk of material misstatement) relative to the supplemental information. We believe that the procedures performed by the auditor to assess risk and design audit procedures for the financial statement audit are sufficient to support the auditor's reporting on supplemental information under the "in relation to" reporting framework.

Paragraph 4(e) of the Proposed Standard would require the auditor to "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." This requirement significantly expands the scope of the auditor's responsibility under AU 551 with respect to information that is not used to prepare the financial statements. Because the Proposed Standard would require the auditor to perform procedures on supplemental information not used to prepare the financial statements, the requirement for the auditor to obtain assurance on such information is inconsistent with an "in relation to" framework.

### ***Evaluation and Reporting of Audit Results***

Paragraph 10(e) of the Proposed Standard would require that the auditor provide both the "in relation to" opinion currently required by AU 551 and an opinion on "whether the form and content of the supplemental information complied, in all material respects, with the regulatory requirements or criteria."

We believe that it is appropriate for the auditor, when forming an "in relation to" opinion, to consider the form and content of the supplemental information and whether it complies with applicable criteria. However, we are concerned that the Proposed Standard's requirement for the auditor to report on whether the supplemental information complied, in all material respects, with regulatory requirements or criteria exceeds the auditor's responsibility in forming an "in relation to" opinion. AT Section 601 *Compliance Attestation* ("AT 601"), paragraph 3, 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, such a report may be useful to legal counsel or others in making such determinations." The more limited form of auditor reporting on compliance matters illustrated in AT 601 and also in AU 623, paragraphs 19-21, recognizes that the auditor is not an attorney and does not require the auditor to form an overall compliance opinion. In contrast, we believe that paragraph 10(e) of the Proposed Standard could be interpreted as causing an inappropriate increase in the auditor's responsibilities. Accordingly, we suggest that the Board maintain the current reporting requirements of AU 551.

Should the Board require auditors to opine on the form and content of supplemental information, 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.

Lastly, we suggest that paragraph 9 of the Proposed Standard be revised to provide greater consistency with AU 551. 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." In order to provide additional guidance to auditors and retain the "in relation to" concept, we believe the Proposed Standard should include language consistent with paragraph 10 of AU 551 and paragraphs 9(f) and 11 of SAS 119, which specifically address the auditor's reporting on supplemental information if the auditor's report on the financial statements contains a qualified, adverse, or disclaimer of opinion.



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We appreciate the opportunity to comment on the PCAOB's Proposed Standard and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations.

Sincerely,



Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality

cc:

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CENTER FOR AUDIT QUALITY

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