

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

12 September 2011

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

Dear Office of the Secretary:

Ernst & Young LLP (Ernst & Young) is pleased to submit comments on the Public Company Accounting Oversight Board's (PCAOB or the Board) request for comment regarding the above referenced proposed auditing standard (the proposed standard).

We support the Board's effort to update its interim standard, AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AU section 551), and we agree that an "in relation to" report is the appropriate level of reporting for supplemental information and will continue to provide the necessary benefits to the users of the financial statements. The "in relation to" reporting model is consistent with AU section 551 and the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (SAS 119).

The Board states on pages 4 and 5 of the release accompanying the proposed standard (the release) that "the proposed standard enhances existing PCAOB standards by requiring the auditor to perform certain audit procedures to test and evaluate the supplemental information." While we acknowledge the Board's intent to enhance the auditing requirements related to supplemental information, we believe some of these enhancements are not consistent with the "in relation to" reporting model that was retained in the proposed standard. If the Board concludes that auditors should perform these additional procedures, we believe they provide a higher level of assurance on the supplementary information than is afforded by the "in relation to" reporting model, and we suggest that the Board consider alternate forms of reporting for these situations.

By extending the auditor's performance responsibilities, but retaining the "in relation to" reporting model, the proposed standard as drafted raises two principal concerns:

- ▶ the procedures required by the proposed standard may, depending on the actual supplemental information being disclosed, be more extensive than the procedures performed over the supplemental information as part of the audit of the financial statements, and
- ▶ the reporting requirements are not consistent with the required audit procedures.

In the remainder of this letter we more fully explain our concerns and suggested modifications and provide other specific comments.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Sincerely,

Ernst & Young LLP

Detailed comments

More extensive audit procedures over supplemental information than required for the audit of the financial statements

Historically, AU section 551 limited the incremental procedures required in an engagement to report on supplemental information to the procedures necessary to opine on whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole. Therefore, the planning, risk assessment and design and performance of audit procedures performed as part of the financial statement audit also supported the engagement to report on the supplemental information.

The expanded requirements in certain paragraphs of the proposed standard result in characterizing the engagement to report on supplemental information as a separate audit engagement rather than as a by-product of the audit of the financial statements. For example:

- ▶ Paragraph 3 of the proposed standard implies that the auditor would need to perform audit procedures and prepare separate audit planning documentation related to the engagement to report on supplemental information that would include assessing the risk of material misstatement of the supplemental information and designing the nature, timing and extent of audit procedures necessary to audit the supplemental information.
- ▶ Paragraph 4 of the proposed standard requires the auditor to perform procedures to test the supplemental information to the extent that it was not tested as part of the audit of the financial statements. This expands the auditor's responsibilities to include performing procedures on information that may not have been used in preparing the financial statements.

We believe the expanded procedures and enhancements are not consistent with the "in relation to" reporting model that was retained in the proposed standard. AU section 551 makes it clear that the supplemental information that the auditor is reporting on has been derived from the financial statements or other accounting records used to prepare the financial statements and that the supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements (refer to AU section 551.06d, 551.07 and 551.11). If this is not the case, the auditor is required to disclaim an opinion on the supplemental information (refer to AU section 551.06d and 551.11).

Inconsistency in reporting

We believe the interplay of the more extensive procedures over supplemental information required by the proposed standard with the "in relation to" reporting model raise unique concerns with the proposed reporting requirements. For example:

- ▶ The reporting requirements of paragraph 10c of the proposed standard communicate to users of the auditor's report that the supplemental information being reported on is *not* limited to information used in preparing the financial statements and therefore was subjected to audit procedures other than those audit procedures performed in completing the audit of the financial statements. We believe the reporting requirements of paragraph 10e contradict this notion by requiring the auditor to opine in his or her report as to whether the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.
- ▶ The proposed auditor's report omits the statement in the current auditing standard (AU section 551.06a) that "the audit has been performed for the purpose of forming an opinion of the basic financial statements taken as a whole." This statement in the auditor's report on supplemental information is an essential element of the "in relation to the financial statements as a whole" notion. By removing this statement, we believe that the proposed auditor's report communicates that the supplemental information was subjected to specific audit procedures, which is inconsistent with "in relation to" reporting.
- ▶ Paragraph 10e of the proposed standard includes requirements for two separate opinions -- one opinion stating that the supplemental information is fairly stated in relation to the financial statements as a whole and a separate opinion on whether the supplemental information complies with regulatory requirements or criteria. In our opinion, these are two separate and distinct reports.

AU section 551 does not specify the procedures to be applied in an engagement to report on supplemental information; therefore, an auditor is not currently required to perform procedures to evaluate the form and content of the supplemental information. While we agree with the proposed requirement for an auditor to evaluate whether the form and content of the supplemental information complies with regulatory requirements or criteria as part of the engagement to report on the supplemental information, we believe requiring the auditor to explicitly report on this significantly expands the auditor's performance requirements for providing assurance on supplemental information. In order to separately report on compliance with regulatory requirements or criteria, we believe auditors will need to develop documentation of their understanding of the regulatory requirements, the procedures performed to evaluate compliance, and the conclusions reached, which go well beyond the requirements of AU section 551, as well as SAS 119.

We believe that this second opinion is both unnecessary and inconsistent with the "in relation to" opinion and we do not believe it is appropriate to report on "compliance with regulatory requirements or criteria" within a report on whether the supplemental information is fairly stated in relation to the financial statements as a whole.

Other comments

- ▶ We suggest that the Board consider expanding paragraph 9 of the proposed standard to provide additional guidance on how the effect of any modification to the audit report on the financial statements would affect the evaluation of whether the supplemental information is fairly stated. We note that page A3-9 of the release provides an example of the effect of a qualification to the auditor's report on the financial statements because of a material departure from GAAP on the auditor's report on supplemental information; however, this guidance is not included in the proposed standard.

In order to provide additional guidance to auditors and retain the "in relation to" concept, we believe that the proposed standard should include language consistent with AU section 551.10 and SAS 119 paragraphs 9f and 11, 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.

- ▶ We believe that the definitions provided in Appendix A, paragraphs A2a and A2b are clear. However, we note that paragraph A2c of Appendix A defines supplemental information as:

- c. Information included in SEC filings that is ancillary to the audited financial statements, derived from the company's accounting books and records, and not otherwise required to be presented pursuant to the rules and regulations of the SEC or another relevant regulatory body.

We believe it would be helpful for the Board to provide examples of what type of supplemental information included in SEC filings not otherwise required to be presented by the SEC or another relevant regulatory body would be included in the scope of the proposed standard.

- ▶ We suggest that the Board make the following changes to Appendix 2, *Proposed Amendments to PCAOB Standards*, to clarify that the proposed standard is only relevant when the auditor is engaged to audit and report on supplemental information that accompanies audited financial statements.

Amendment to section AU section 552:

The auditor's responsibility regarding supplemental information accompanying audited financial statements, *when the auditor is engaged to audit and report on the supplemental information*, is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.

Amendments to AU section 558 (a and b):

The auditor's responsibility regarding supplemental information accompanying audited financial statements, *when the auditor is engaged to audit and report on the supplemental information*, is discussed in Proposed Auditing Standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*.