PCAOB
Public Company Accounting Oversight Board

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

In the Matter of Deloitte & Touche LLP's Quality Control Remediation Submission	)	PCAOB Release No.104-2013-191
	)	November 21, 2013

I.

The Public Company Accounting Oversight Board ("Board" or "PCAOB") has evaluated the submission of Deloitte & Touche LLP ("the Firm") pursuant to PCAOB Rule 4009(a) for the remediation period ended April 16, 2010, concerning the Firm's efforts to address certain quality control criticisms included in the nonpublic portions of the Board's April 16, 2009 inspection report on the Firm ("the Report"). The Board has determined that as of April 16, 2010, the Firm had not addressed certain criticisms in the Report to the Board's satisfaction. Accordingly, pursuant to Section 104(g)(2) of the Sarbanes-Oxley Act of 2002 ("the Act") and PCAOB Rule 4009(d), the Board is making public the portions of the Report that deal with those criticisms.[1/]

The Firm has notified the Board that it will not seek Securities and Exchange Commission review of the determination, which the Firm has a right to do under the Act and Commission rules. The Firm has requested that a related statement by the Firm be attached as an Appendix to this release, and the Board has granted that request. By allowing the Firm's statement to be attached as an

[1/] Those portions of the Report are now included in the version of the Report that is publicly available on the Board's web site. Observations in Board inspection reports are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability.

Appendix to this release, however, the Board is not endorsing, confirming, or adopting as the Board's view any element of the Firm's statement.[2]

II.

The quality control remediation process is central to the Board's efforts to cause firms to improve the quality of their audits and thereby better protect investors. The Board therefore takes very seriously the importance of firms making sufficient progress on quality control issues identified in an inspection report in the 12 months following the report. Particularly with the largest firms, which are inspected annually, the Board devotes considerable time and resources to critically evaluating whether the firm did in fact make sufficient progress in that period. The Board makes the relevant criticisms public when a firm has failed to do so to the Board's satisfaction.

It is not unusual for an inspection report to include nonpublic criticisms of several aspects of a firm's system of quality control. Any Board judgment that results in later public disclosure is a judgment about whether the firm made sufficient effort and progress to address the particular criticisms articulated in the report on that firm in the 12 months immediately following the report date. It is not a broad judgment about the effectiveness of a firm's system of quality control compared to those of other firms, and it does not signify anything about the merits of any additional efforts a firm may have made to address the criticisms after the 12-month period.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

November 21, 2013

[2] Consistent with the Act, the Board does not make public statements indicating that it has determined that any firm has satisfactorily addressed all of the criticisms in an inspection report. In connection with any such Board determination, however, the Board notifies a firm that nothing prohibits a firm from publicly disclosing the determination. The Board also notifies a firm that the determination is not a determination that a firm has completely and permanently cured any particular quality control defect, is not a general endorsement of any aspect of a firm’s quality control system, and does not foreclose additional criticism on the same or related points in subsequent Board inspections of a firm.

Deloitte.

Statement of Deloitte & Touche LLP on the PCAOB's November 21, 2013, Release No. 104-2013-191

We hold ourselves to very high standards, and take seriously the important public interest role entrusted to us. In order to continuously raise the bar on audit quality, in recent years we have made substantial, comprehensive investments in our audit practice. Through a combination of these investments, the diligence and dedication of our partners and professionals, and constructive engagement with our regulators, we have made significant progress toward the achievement of our audit quality objectives.

Recently, the PCAOB informed us that it has made final determinations with respect to the remedial actions we took in response to Part II of our 2008, 2009, and 2010 annual PCAOB inspection reports.

Resolution of 2008

The PCAOB concluded that the actions we took prior to the April 16, 2010 remediation deadline for the 2008 inspection report were not sufficient to address five of the quality control criticisms in Part II of that report. Accordingly, the PCAOB has made public portions of the 2008 Part II. While we did take numerous good faith remedial actions within the 12-month period (April 2009 through April 2010) following the issuance of the 2008 report, we recognize additional remedial actions were necessary and were subsequently taken in order to be fully responsive to the matters identified in the 2008 Part II.

Resolution of 2009 and 2010

We are pleased that the PCAOB has determined that the remedial actions we took in response to Part II of our 2009 and 2010 inspection reports addressed the quality control criticisms in those reports to the Board's satisfaction. These determinations close the inspection cycles for 2009 and 2010. We believe the PCAOB's determinations concerning our remediation of the quality control criticisms contained in Part II of our 2009 and 2010 inspection reports are reflective of the significant progress we have made toward the achievement of our audit quality objectives in more recent years.

Looking Forward

High audit quality remains our number one priority. We are experiencing a positive trajectory as demonstrated by the decline in the number of deficiencies cited in Part I of our 2012 inspection report. As we look forward, we will continue to institutionalize the audit process enhancements we have made throughout our system of quality control to ensure that they endure. We also will continually challenge ourselves to drive continuous improvement in audit quality. We look forward to continuing our constructive engagement with the PCAOB Board Members and the inspection staff, audit committees, and other stakeholders in pursuit of further enhancing the quality of our audits.

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Sincerely,

Joe Echevarria
Chief Executive Officer
Deloitte LLP

Greg Weaver
Chief Executive Officer
Deloitte & Touche LLP

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Report on

2008 Inspection of Deloitte & Touche LLP

(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

April 16, 2009

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2009-051A
(Includes portions of Part II C of the full report that
were not included in PCAOB Release No. 104-2009-051)

Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.

PCAOB Release No. 104-2009-051A

PCAOB
Public Company Accounting Oversight Board

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

PCAOB Release No. 104-2009-051A

2008 INSPECTION OF DELOITTE & TOUCHE LLP

In 2008, the Board conducted an inspection of Deloitte & Touche LLP ("Deloitte" or "the Firm"). The Board is today issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report, Appendix B, and portions of Appendix C. Appendix B provides an overview of the inspection process. Appendix C includes the Firm's comments, if any, on a draft of the report.[1/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[2/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

2/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") performed an inspection of the Firm from March 2008 through November 2008. The inspection team performed field work at the Firm's National Office and at 24 of its approximately 74 U.S. practice offices.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[3/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. Appendix B to this report provides a description of the steps the inspection team took with respect to the review of audits and the review of certain firm-wide quality control processes.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[4/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

[3/] This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

[4/] When the Board becomes aware that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of selected audits performed by the Firm. Those audits and aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies.[5/] Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP, including, in some cases, errors that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the Firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3") provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence.[6/] For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed opinions,[7/]

[5/] The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process.

[6/] See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

[7/] See AU 390, *Consideration of Omitted Procedures After the Report Date*, AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* and failure to take such actions could be a basis for Board disciplinary sanctions. In response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers, and in some instances, follow-up between the Firm and the issuer led to a change in the issuer's accounting or disclosure practices or led to representations related to prospective changes.[8/]

In some cases, the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements or internal control over financial reporting ("ICFR"). The deficiencies that reached this degree of significance are described below, on an audit-by-audit basis.

Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The issuer calculated its allowance for doubtful accounts by applying estimated loss factors to categories of accounts receivable grouped by days past due. The Firm failed to test the assumptions that management had used to develop the estimated loss factors.

- The Firm failed to identify a material weakness in the issuer's internal controls over the issuer's accounts receivable reserve.[9/]

(both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* ("AS No. 5"), ¶ 98.

[8/] The Board inspection process generally did not include review of such additional procedures or documentation, or of such revised accounting, although future Board inspections of the Firm may, as appropriate, include further review of any of these matters.

[9/] The Firm identified this failure in the course of performing additional procedures following receipt of the inspection team's comments on aspects of the Firm's

Issuer B

In this audit, the Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. In contravention of Statement of Financial Accounting Standards ("SFAS") No. 109*, Accounting for Income Taxes*, the issuer recorded a deferred tax asset for goodwill when no differences existed between the tax and book bases.[10/]

Issuer C

The issuer used information provided by service organizations in its process for estimating a significant contingent liability. The Firm failed to test the completeness of the information provided by one of the service organizations that was used by a specialist to calculate this liability. Further, the engagement team failed to identify and test controls related to the completeness of this information and, accordingly, failed to obtain sufficient competent evidential matter to support the Firm's opinion on the issuer's ICFR.

Issuer D

The issuer completed a significant acquisition during the year. The Firm failed to perform audit procedures regarding the revenues and expenses of the acquired company from the date of acquisition to year end.

Issuer E

In this audit, the Firm failed to perform sufficient procedures to test the issuer's allowance for loan losses ("ALL"). The issuer's ALL estimate was derived from a quantitative model, the results of which were adjusted for certain qualitative factors designed to address, among other things, more recent conditions and information. During the year, the issuer accumulated evidence of deteriorating conditions relevant to the value of its loan portfolio, including declining collateral values in certain markets and budgeted write-offs that were in excess of the ALL. Furthermore, additional data

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audit of the issuer's allowance for doubtful accounts. The Firm revised its opinion on the issuer's ICFR related to the matter discussed here.

10/ The issuer restated its financial statements related to the matter discussed here.

regarding collateral values in the fourth quarter of the year became available after the balance sheet date but prior to issuance of the audit report. While the Firm noted that the issuer's qualitative adjustments had the effect of further increasing the year-end ALL within limits that the issuer had established in prior years, and while the Firm performed audit procedures on certain underlying data, the Firm failed to perform a sufficient analysis of whether the deteriorating conditions should have prompted further increases in the qualitative adjustments included in the ALL.

Issuer F

During the prior year, the issuer completed an acquisition and recorded a significant intangible asset attributed to a customer list. The issuer determined that it needed to analyze whether this asset was impaired as of the end of the year under audit, as the customer attrition rate was greater than initially projected. The issuer concluded that this asset was not impaired, although it decreased the estimated life of the asset. The Firm failed to test the issuer's analysis supporting the issuer's positions that the intangible asset was not impaired and that the revised estimated life was appropriate.

Issuer G

The issuer held investments in certain illiquid securities. The Firm failed to perform sufficient procedures to evaluate the issuer's valuation of these securities. While the Firm obtained an understanding of the process the issuer had used to obtain information regarding the fair value of the securities and performed other audit procedures, the Firm failed to evaluate the reasonableness of certain of the assumptions related to the underlying information used to develop and support the estimated fair values.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and processes related to audit quality. This review addressed practices, policies, and procedures concerning audit performance and the following five areas (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of the Firm's risk-rating system; (4) processes related to the Firm's use of audit work that the Firm's foreign affiliates perform on the foreign operations of the Firm's U.S. issuer audit clients; and (5) the Firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance and processes for responding to weaknesses in quality control. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART II

ISSUES RELATED TO QUALITY CONTROLS

This Part II describes the Board's concerns about potential defects in the Firm's quality control system. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements. On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.[11/]

A. Audit Performance

A firm's system of quality control should provide reasonable assurance that the firm's audit work will meet professional standards and regulatory requirements. Not every deficiency in an audit indicates that a firm's quality control system is insufficient to provide that assurance, and this report does not discuss every auditing deficiency observed by the inspection team. On the other hand, some deficiencies, or repeated instances of similar deficiencies, may indicate a significant defect in a firm's quality control system even when the deficiency has not resulted in an insufficiently supported audit opinion. As described below, some deficiencies reported by the inspection team do suggest that the Firm's system of quality control may in some respects fail to provide sufficient assurance that the Firm's audit work will meet applicable standards and requirements.

[11/] This report's description of quality control issues is based on the inspection team's observations during the inspection field work, which concluded in November 2008. Any changes or improvements that the Firm may have made in its system of quality control since that time are not reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

1. Specific Categories of Deficiencies

a. Management Estimates

The engagement reviews provide cause for concern that the Firm's system of quality control may not do enough to assure that the Firm performs appropriate procedures to audit significant estimates, including evaluating the reasonableness of management's assumptions and testing the data supporting the estimates. In addition to the four engagements[12/] described in Part I.A, the inspection team identified four other engagements[13/] with deficiencies in the Firm's testing of management estimates. Specifically –

- In one engagement,[14/] the Firm failed to evaluate the reasonableness of certain assumptions that the issuer had used in estimating its allowance for doubtful accounts.

- In one engagement,[15/] the Firm failed to test certain data that the issuer had used in estimating its excess and obsolete inventory reserves.

- In one engagement,[16/] the Firm failed to evaluate the reasonableness of certain assumptions the issuer had used in determining the estimated life and method of amortizing a customer-relationship intangible asset. Specifically, the Firm failed to evaluate the reasonableness of a 20-year amortization period, in light of the fact that customer relationships representing approximately one-third of the projected revenues were estimated by the issuer's valuation specialist to have a 25 percent annual attrition rate, and to evaluate the appropriateness of including new customers, obtained post-acquisition, in the revenue projections that were used in determining the estimated useful life of the asset.

12/ Issuers A, E, F, and G

13/ Issuers H, I, J, and K

14/ Issuer I

15/ Issuer H

16/ Issuer J

- In one engagement,[17/] the Firm failed to evaluate the reasonableness of a significant assumption the issuer had used in determining the period for recognizing revenue from a multi-year arrangement.

* * * *

Use of Service Organizations and the Work of Specialists

The engagement reviews provide cause for concern about the effectiveness of the Firm's quality controls regarding the Firm's approach to using the work of specialists and data provided by service organizations when auditing significant management estimates. In addition to one engagement[18/] described in Part I.A, the inspection team identified four engagements[19/] where there were deficiencies relating to the use of the work of specialists, data provided by service organizations, or both. In two engagements,[20/] the issuer used service organizations to maintain and process data that were provided to specialists for their use in estimating liabilities. In both engagements, the Firm did not rely on service auditor's reports or test the controls at the service organizations, nor did it perform other tests of the completeness and accuracy of the data that the specialists had used in estimating the liabilities. Consequently, the reliability of other tests that made use of such data was compromised. In one engagement,[21/] there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested certain data that the issuer had provided to a specialist who estimated the value of certain acquired intangible assets. In another engagement,[22/] the Firm used its tax specialists to review the issuer's sales and use tax contingent liability. There was no evidence in the audit documentation, and no

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17/ Issuer K

18/ Issuer C

19/ Issuers J, N, O, and P

20/ Issuers O and P

21/ Issuer N

22/ Issuer J

persuasive other evidence, that the Firm had addressed the tax exposure items that the specialists had identified.

* * * *

2. General Observations Concerning Audit Performance

The nature and number of the reported deficiencies identified by the inspection team (including, in seven of the 64 engagements reviewed, the Firm's failure to obtain sufficient competent evidential matter, at the time it issued its audit report, to support its audit opinion) suggest that important issues may exist regarding:

* * * *

- The sufficiency of the Firm's emphasis on the critical need to exercise due care and professional skepticism when performing audits;

- The Firm's supervision and review activities to ensure that the audit is performed thoroughly and with due care;

* * * *

Some of these quality control issues are discussed further below.

The inspection results provide cause for concern that the Firm's system of quality control may not do enough to assure that accounting and auditing issues are evaluated with the professional skepticism that is contemplated in the auditing standards. The inspection team observed that, in several instances, the engagement teams' support for significant areas of the audit consisted of managements' assertions or views, the results of inquiries of management, or unaudited management analyses.[23/] The Firm's failure to appropriately challenge management's representations occurred in several areas, including when the Firm evaluated (a) management's estimates and (b) the materiality of misstatements to the financial statements and how users of the financial statements would interpret those misstatements. Engagement teams did not appropriately test these representations by, for example, reviewing appropriate source documentation,

[23/] Issuers A, F, I, K, L, and M

contacting outside parties, performing their own analyses, or comparing the representations to relevant industry or other public information.

* * * *

Consultations

The engagement reviews provide cause for concern that the Firm's quality controls may not provide reasonable assurance that appropriate and effective consultations will occur when necessary. The Firm requires consultation on only a few specific accounting and auditing matters. Further, the Firm's policy on consultations,[24/] which provides a tiered hierarchy of levels of consultations, appears to be deficient in that it lacks a mechanism to provide reasonable assurance that significant, complex matters are raised to the appropriate level in the hierarchy to provide for a sufficient level of rigor in the analysis.

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[24/] The Firm's policy on consultations includes a hierarchy of discretionary consultations based on the significance of the matter (Levels A, B, and C) and the hierarchy of the individuals consulted (Levels 1 through 4). A Level A consultation is the highest level of significance, and Level 1 represents the highest level of the individual consulted (Level 1 is defined as National Office partners). The policy states "…[a] Level A consultation has the objective of obtaining the mutual conclusion of the consulted party and the audit Engagement Partner." Level B consultations have the "… objective of obtaining guidance, direction, or advice from the consulted party but…do not have as an objective arriving at a mutual conclusion regarding the matter…." Level C consultations are "…discussions or inquiries [that] may be primarily educational or informational in nature…with the understanding that the feedback by the consulted party is being provided without the consulted party's research or evaluation of potentially relevant literature." The policy also requires the engagement partner to "…confer with the Audit Professional Practice Director" prior to initiating discretionary consultations.

APPENDIX B

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance by the Firm with applicable requirements related to auditing issuers. This process included reviews of components of selected issuer audits completed by the Firm. These reviews were intended both to identify deficiencies, if any, in those components of the audits and to determine whether the results of those reviews indicated deficiencies in the design or operation of the Firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

1. Review of Selected Audits

The inspection team reviewed aspects of selected audits, which it chose according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and inspected the engagement team's work papers and interviewed engagement personnel regarding those areas. The areas subject to review included, but were not limited to, revenues, fair value, financial instruments, income taxes, reserves or estimated liabilities, inventories, consideration of fraud, supervision of work performed by foreign affiliates, and assessment of risk by the engagement team. The inspection team also analyzed potential adjustments to the issuer's financial statements that were identified during the audit but not corrected. For certain selected engagements, the inspection team reviewed written communications between the Firm and the issuer's audit committee. With respect to certain engagements, the inspection team also interviewed the chairperson of the issuer's audit committee.

When the inspection team identified a potential issue, it discussed the issue with members of the engagement team. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form.

2. Implementation of AS No. 5

Shortly after the approval of AS No. 5, members of the Board's Office of the Chief Auditor and of the Division of Registration and Inspections reviewed documentation of the Firm's initial approach to the implementation of AS No. 5 and provided feedback to the Firm's National Office. Field inspection procedures in this area began with discussions with members of the Firm's leadership to address specific areas of inspection emphasis and the appropriate use of auditor judgment, and to outline planned communications with the Firm. The reviews of certain audits included discussions with engagement teams and the review of documentation regarding the following aspects of the Firm's audit of internal control over financial reporting: (1) risk assessment; (2) risk of fraud; (3) entity-level controls; (4) the nature, timing, and extent of tests of controls; and (5) evaluating and reporting deficiencies. The inspection team discussed its observations about the effectiveness of the implementation of AS No. 5 with the engagement teams, with emphasis on areas where implementation could be improved in subsequent audits. Periodically the observations were summarized and discussed with the Firm's National Office.

3. Review of Firm Management and Monitoring Processes Related to Audit Quality Control

The inspection team's approach to its review of the Firm's system of quality control was intended to further its understanding of how the Firm manages audit quality, so as to enhance its basis for assessing, in this year and in future years, whether that system is appropriately designed and implemented to achieve the goal of conducting audits that are in compliance with applicable standards. The inspection team also continued its assessment of the Firm's processes and controls that relate to certain specific functional areas that relate to audit performance. The overall approach was designed to identify possible defects in the design or operation of the Firm's system of quality control, while also continuing and enhancing the evaluation of the Firm's ability to respond effectively to indications of possible defects in its system of quality control.

a. Review of Business Management

The objectives of the inspection procedures in this area were (a) to obtain an enhanced understanding of how the Firm's management is structured and operates the Firm's business, and the implications that the management structure and processes have on audit performance and (b) to continue assessing whether actions and communications by the Firm's leadership – the Firm's "tone at the top" – demonstrate a commitment to audit quality. Toward that end, the inspection team interviewed members of the Firm's national, regional, and local leadership to obtain an understanding of the Firm's approach to, and processes for, its management, including the various management committees or other mechanisms, formal or informal, that relate to assessing and monitoring audit performance, or that otherwise affect audit performance. The inspection team also obtained and reviewed significant management reports and documents, as well as information regarding financial metrics and the budget and goal setting processes that the Firm uses to plan for, and evaluate the success of, its business.

b. Review of Partner Management

The objectives of the inspection procedures in this area were (a) to continue to assess whether the design and application of the Firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as compared to marketing or other activities of the Firm; (b) to assess the Firm's quality controls over the allocation of its partner resources; and (c) to identify and assess the accountability and responsibilities of the different levels of Firm management with respect to partner management. The inspection team interviewed members of the Firm's management and reviewed and evaluated documentation regarding these topics.

In addition, the inspection team reviewed a sample of partners' personnel files, including files of partners who had significant negative inspection results from recent internal and PCAOB inspections.

c. Review of Client Acceptance and Retention, Including the Firm's Risk-Rating System

The objectives of the inspection procedures in this area were to continue to assess whether the Firm appropriately considers and addresses the risks involved in accepting and retaining clients in the particular circumstances and to assess the Firm's responses to the risks identified, including the extent to which an observable link exists between the identified risks of material misstatement and the audit procedures performed. Toward those objectives, the inspection team obtained an understanding of any changes in the acceptance and retention processes, evaluated the Firm's policies and procedures relating to the Firm's risk-rating systems, and interviewed members of the Firm's management.

d. Review of Policies Related to Foreign Affiliates

The objective of the inspection procedures in this area was to evaluate the processes the Firm uses to ensure that the audit work that its foreign affiliates perform on the foreign operations of U.S. issuers is effective and in accordance with applicable standards. To accomplish its objective, the inspection team reviewed the Firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the operations of U.S. issuer clients, reviewed available information relating to the most recent foreign affiliated firms' internal inspections, and reviewed the U.S. engagement teams' supervision and control procedures concerning the audit work that the Firm's foreign affiliates performed on a sample of audits. The inspection team also reviewed, on a limited basis, certain of the audit work performed by the Firm's foreign affiliates on the foreign operations of U.S. issuer clients.

e. Review of Firm's Processes for Monitoring Audit Quality

(i) Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

The objective of the inspection procedures in this area was to identify and assess the monitoring processes that the Firm considers to be significant to its ability to monitor audit quality for individual engagements and for the Firm as a whole. Toward that objective, the inspection team interviewed members of the Firm's management to build on its understanding of how the Firm identifies, evaluates, and responds to possible indicators of deficiencies in audit performance, including internal inspection findings, PCAOB inspection observations, restatements, and litigation. In addition, the inspection team reviewed documents related to the design, operation, and findings of the Firm's internal inspection program, and reviewed certain audits that the Firm had inspected and compared the results to those of the Firm.

(ii) Review of Response to Weaknesses in Quality Control

The objectives of the inspection procedures in this area were to assess the design and test the effectiveness of the Firm's processes for addressing possible deficiencies in the Firm's system of quality control, including any deficiencies in the Firm's system of quality control that were noted in prior PCAOB inspection reports. Toward those objectives, the inspection team reviewed steps the Firm has taken in the past several years to address possible quality control deficiencies. The inspection team interviewed members of the Firm's national and regional leadership and conducted focused inspections of audits to assess the design and effectiveness of the processes identified. In addition, the inspection team conducted focused inspections of audits of certain issuers whose audits had been reviewed during previous PCAOB inspections of the Firm to ascertain whether the audit procedures in areas with previous deficiencies had been improved.

(iii) Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

In this area, the procedures included obtaining an update of the inspection team's understanding of policies, procedures, and guidance related to the Firm's independence requirements and its consultation processes and the Firm's compliance with them. In addition, the inspection team reviewed documents, including certain newly issued policies and procedures, and interviewed Firm management to update its understanding of the Firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

APPENDIX C

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[25/]

[25/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

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March 26, 2009

Mr. George Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Deloitte & Touche LLP – Response to Part I of Draft Report on 2008 Inspection

Dear Mr. Diacont:

Deloitte & Touche LLP ("D&T") is pleased to submit its response to the Public Company Accounting Oversight Board's (the "Board") February 6, 2009 draft of its Report on 2008 Inspection of Deloitte & Touche LLP (the "Draft Report"). We are supportive of the inspection process and believe the Board's comments and observations assist in the achievement of our shared objective of improving audit quality.

D&T is committed to the highest standards of audit quality. We continually monitor the systems and processes for our audit practice, including quality control, and, among other things, make changes to methodologies, policies, and procedures when we identify improvements that could enhance audit quality. As we have done with respect to the Board's previous inspection reports, we will thoroughly consider the Board's comments and concerns addressed in the Draft Report, assess whether we have already initiated actions that address those concerns, and consider whether additional actions are necessary.

We believe that many of the observations included in the Draft Report reflect the fact that professional judgments are involved both in auditing an Issuer's financial statements and internal control over financial reporting as well as in subsequently inspecting any such audits. Professional judgments of reasonable and highly competent professionals may differ as to the sufficiency of auditing procedures performed and evidence obtained, conclusions reached and documentation required in specific circumstances. A number of the PCAOB's comments relate to situations in which we believe that the engagement team, in some cases after significant consultation with specialists and other subject matter experts, made and documented well reasoned and supported judgments during the audit. In our view, such reasonable judgments should be respected and not second guessed.

We view the PCAOB's observations as constructive, and, accordingly, give each comment careful and thoughtful consideration. Although we may not always agree with the characterization by the PCAOB in the Draft Report of our audit work and related documentation, we have evaluated the matters identified by the Board's inspection team for each of the Issuer audits described in Part I of the Draft Report.

With respect to Issuer A and the material weakness cited in Part I of the Draft report, the Issuer client and we considered AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's*

Report (AU 561), and the Issuer revised management's assessment of, and we revised our opinion on, internal control over financial reporting. With respect to Issuer B and the departure from generally accepted accounting principles cited in Part I of the Draft Report, the Issuer client and we considered AU 561, and the Issuer reflected the correction of its financial statements in its next periodic filing.

With respect to two other Issuer audits cited in Part I of the Draft Report, in one instance we have supplemented our documentation to add clarity and, in one instance, we have performed certain additional procedures in response to the inspection findings. With respect to a third Issuer audit cited in Part I, we believe that we appropriately evaluated the Issuer's controls and performed sufficient audit procedures in light of our risk assessment and results of our control testing. In this regard, we have fulfilled our professional responsibilities under AU 390, *Consideration of Omitted Procedures After the Report Date*, and none of our conclusions or our reports on the Issuers' financial statements were affected.

With respect to the observations related to Issuers E and G, we believe that the audit procedures performed, evidence obtained, conclusions reached and related documentation were appropriate in the circumstances, and, accordingly, we believe such observations should not be included in the final report as discussed further below.

With respect to Issuer E, we believe that the comment in Part I of the Draft Report is contrary to the evidence in the working papers. We believe the engagement team did perform sufficient procedures to test the issuer's Allowance for Loan Losses (ALL). For [redacted] the [redacted] observation[redacted] cited as the [redacted] support for the comment, [redacted] the audit working papers do include substantial evidence that appropriate consideration was given and audit procedures were performed. Specifically, the working papers document the audit team's consideration and testing of the adjustment to increase the ALL for qualitative factors, including deteriorating conditions relevant to the value of the loan portfolio and additional data regarding home prices in the fourth quarter that became available after year end but prior to the issuance of the audit report. [redacted] Further, the focus of the comment is on a qualitative adjustment that is only one component of the total ALL and that, by its nature, is subject to substantial professional judgment. The comment also fails to consider the entirety of the significant amount of audit work performed on the ALL.

With respect to Issuer G, we believe that the comment in Part I of the Draft Report is contrary to the evidence in the working papers. [redacted] in fact the audit documentation demonstrates that appropriate consideration was given to, and significant audit work was performed on, the valuation of the securities, which the Issuer wrote down by 73% prior to the issuance of its financial statements. The working papers include extensive documentation of the engagement team's procedures to evaluate the Issuer's valuation of the securities by obtaining market-based pricing data from a number of independent third party sources and comparing such pricing to the values estimated by the Issuer. Additionally, the engagement team undertook extensive consultations with internal valuation experts and with National Office regarding the sufficiency of the audit evidence and the conclusions reached prior to completing the audit.

* * * * * * *

We appreciate the opportunity to provide our response to Part I of the Draft Report and look forward to continuing to work with the PCAOB in support of efforts to improve audit quality. We are available to the Board and its staff to discuss our response in further detail.

Sincerely,

Deloitte + Touche LLP