



September 12, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Audit - Tax - Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312.565.4719

www.GrantThornton.com

Re: PCAOB Rulemaking Docket Matter No. 36, *Proposed Auditing Standard, Auditing Supplemental Information Accompanying Audited Financial Statements, and Related Amendments to PCAOB Standards*

Dear Board Members and Staff:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or Board) proposed auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*, and related amendments, and we respectfully submit our comments and recommendations thereon.

We agree with the types of supplemental information covered by the proposed standard. Nevertheless, we have specific observations below for the Board's consideration related to supplemental information not filed with the U.S. Securities and Exchange Commission (SEC or Commission), as well as schedules filed with the Commission pursuant to SEC Regulation S-X, Article 12.

In addition, we believe that the introduction of the proposed standard should clearly indicate that the opinion on supplemental information is *in relation to* the financial statements and is performed in conjunction with the financial statement audit. As currently proposed, there may be a misperception that the audit of supplemental information is a standalone audit engagement with separate risk assessments and materiality considerations. We have provided certain other recommendations herein, particularly relating to the required audit procedures, that we believe also will assist with further clarifying this matter.

Further, with respect to information that is voluntarily presented as supplemental information (paragraph A2c) whereby the auditor does not wish to, or is unable to, report in accordance with the proposed standard, a reference to the applicability of AU sec. 550, *Other Information in Documents Containing Audited Financial Statements*, may be helpful in clarifying the auditor's responsibility in those circumstances. To provide additional differentiation between supplemental information and other information, we believe that the definition of supplemental information in paragraph A2c could be modified to more clearly indicate that such information is subjected to audit procedures performed in conjunction with the financial statement audit.

Supplemental information not filed with the SEC

Through the definition of supplemental information, the proposed standard is limited to supplemental information included in an SEC filing. From a PCAOB standard-setting perspective, this seems appropriate. We note, however, that several federal agencies are establishing and updating compliance requirements related to for-profit entities, which could be issuers, receiving federal awards, such as those received through the American Recovery and Reinvestment Act of 2009. In some cases, information related to these federal awards is presented as supplemental information to the financial statements and are reported on by the auditor using an in relation to form of opinion. Such information would ordinarily not be filed with the SEC, and therefore, neither PCAOB standards nor the standards established by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) would seem to clearly apply. We believe that there may be two possible approaches to address this matter: indicating that the proposed PCAOB standard could be adapted and applied in these circumstances, or discussing with the ASB the possibility of utilizing AICPA standards to report on such supplemental information, even though the underlying financial statement audit was performed in accordance with PCAOB standards. We support the former approach because the use of PCAOB standards would seem more appropriate and may be less confusing to users. However, the Board should note that adaptation of PCAOB standards may be necessary because this type of supplemental information may be prepared and reported upon subsequent to the financial statement audit, in which case the audit procedures may not be planned and performed in conjunction therewith.

Schedules presented pursuant to SEC Regulation S-X

The release indicates that the proposed standard does not apply to schedules prepared pursuant to SEC Regulation S-X because such schedules are part of the financial statements. We question whether this statement is accurate in all cases. Regulation S-X specifically states: “The schedules shall be examined by the independent accountant if the related financial statements are so examined.” The SEC staff guidance has also indicated that the financial statement audit report should refer to any schedules required by Article 12 or that a separate report accompanying the schedules may be used. Further, Regulation S-X schedules may be filed subsequent to the financial statement filing. All of these points are an indication that the information contained in these schedules may be supplementary and not part of the basic financial statements covered by the auditor’s standard opinion, unless of course the information is contained within the financial statement footnotes. We also note that there is some diversity in practice with regard to reporting on these schedules, and in some respects, the separate opinion that may be expressed on these schedules may be construed as an in relation to opinion. In theory, there should be no practical difference in the audit procedures that should be performed between Regulation S-X schedules that are not part of the basic financial statements and the supplemental information covered by the proposed standard; both are subjected to auditing procedures based on financial statement materiality and both are opined on separately from the financial statements. If the final standard will not apply to these schedules, the PCAOB staff may need to provide additional guidance as to the appropriate form of opinion on the schedules in order to achieve more consistent reporting between audit firms and to further clarify the difference between the opinion on the schedules, if separate from the financial statement opinion, and the opinion on supplemental information.

Essentially, if the schedules are deemed part of the financial statements, only one opinion on the fair presentation of the financial statements and schedules in accordance with the applicable financial reporting framework would seem to be appropriate. However, the Board would need to consider the feasibility of this form of reporting in situations where an issuer separately files the required schedules subsequent to the filing of the annual financial statements.

In relation to the financial statements as a whole

We support retaining the in relation to opinion because, as noted in the release, supplemental information accompanies audited financial statements and provides ancillary information derived from the accounting books and records. Also, the proposed standard will be applied more broadly than supplemental information provided by brokers and dealers. We believe that it is the Commission's or other regulatory body's primary responsibility to prescribe the form of reporting, such as the use of an in relation to opinion or a more standalone approach, depending on the type of information to be presented. A standalone approach would likely be covered by the requirements of AU sec. 623, *Special Reports*. Accordingly, a separate PCAOB standard supporting the in relation to opinion, such as that proposed, seems necessary.

With respect to supplemental information of brokers and dealers, we also believe that an in relation to opinion would be more appropriate than a standalone approach. However, as we indicated in our letter dated August 26, 2011 to the SEC on their proposed amendments to the broker-dealer financial reporting rule under the Securities Exchange Act of 1934, we believe that there will be some overlap, which could cause potential confusion, between the opinion on a broker-dealer's supplemental schedules, as proposed, and the opinion on compliance under the proposed examination engagement. Under the PCAOB's proposal, the supplemental schedules that brokers-dealers are required to file pursuant to Exchange Act Rule 17a-5 are expected to be audited in relation to the financial statements using financial statement materiality. An opinion will be expressed thereon, which would include compliance with form and content in accordance with such rule. Simultaneously, under the SEC's proposal, a separate examination report will be issued also expressing an opinion on compliance with certain of the same rules; for this engagement, however, material non-compliance is determined at the compliance requirement level. As such, we suggested that the SEC discuss this matter with the PCAOB, particularly the form of opinion on the supplemental schedules, to consider a form of reporting that could potentially eliminate any overlap and misunderstanding. Refer to our separate comments herein related to reporting on form and content.

The Board also seeks comments as to whether there are circumstances in which an auditor cannot provide an opinion on supplemental information in relation to the financial statements. We have noted two situations for consideration. First, the auditor may not be able to express an in relation to opinion on non-accounting information or accounting information not directly related to the financial statements or subjected to the related auditing procedures. In this regard, we believe that the extant guidance in paragraph .11 of AU sec. 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, should be carried forward. Second, we believe that the auditor should not be permitted to express an unqualified in relation to opinion when the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements because the unqualified in relation to opinion

could be misleading and inappropriate, akin to a piecemeal opinion on the financial statements. Although we recognize that this would be a rare circumstance, particularly for issuers, we believe it should be addressed by the Board's standard.

Materiality

We agree with the proposed requirement related to materiality; that is, using the same consideration of materiality for supplementary information as that used in planning and performing the financial statement audit. This approach is consistent with the approach historically understood and taken by auditors. Accordingly, we do not see a need to address materiality considerations for specific types of supplemental information, particularly in consideration of the inclusion, within the proposed standard, of the audit procedures the auditor is expected to perform to report on such information.

However, the evaluation required by paragraph 9 and the form of opinion required by paragraph 10e, along with the illustrative example provided in paragraph 13, of the proposed standard imply the use of a different materiality level in regards to compliance with form and content with the applicable regulatory requirements or criteria. Although this may not be what was originally intended, we believe additional clarification is warranted. Refer to our separate comments herein related to reporting on form and content.

Required audit procedures

Overall, we agree with the proposed audit procedures and believe that they are sufficient and appropriate. It might be helpful, however, to more clearly link the requirements to obtain sufficient appropriate audit evidence in paragraph 3 with the specific audit procedures in paragraph 4, as well as the financial statement audit procedures. By this we mean that the audit procedures in paragraph 4, in addition to the financial statement audit procedures that subject the supplemental information to testing, are those necessary to obtain sufficient appropriate audit evidence to support the auditor's opinion on the supplemental information. The nature, timing, and extent of the audit procedures in paragraph 4 are driven by the considerations in paragraph 3, while both risk assessments and materiality are driven by the financial statement audit rather than a separate and distinct risk assessment process. Any additional procedures that are needed to obtain sufficient appropriate audit evidence are covered by the requirement in paragraph 4e related to completeness and accuracy, whereby the auditor could consider any additional risks of misstatement. This requirement, on its own, may imply a greater level of assurance. We believe that such clarifications are necessary to eliminate the inference of a standalone audit engagement of the supplemental information, which is inconsistent with the notion of an in relation to form of reporting.

With regard to the required audit procedures, we also suggest rewording paragraph 4f to require the auditor to *evaluate whether the supplemental information, including its form and content, was prepared in accordance with the relevant regulatory requirements or other applicable or acceptable criteria*. In light of our other comments herein, we believe that this requirement better reflects the auditor's responsibilities.

Management representations

We support the requirement, in paragraph 5 of the proposed standard, for the auditor to obtain written representations from management concerning the supplemental information. However, because we believe that management must prepare and present the supplemental information in accordance with some form of criteria, whether based on a regulatory requirement or other applicable or acceptable criteria, we believe that the representations in paragraphs 5a, 5b, and 5d require clarification with respect to management's basis of presentation. In this regard, and in consideration of our other comments relating to form and content, we also believe that the representations in paragraphs 5b and 5d need to be combined, while further eliminating the reference to materiality consistent with the financial statement audit representations. Hence, we propose the following alternative representations to replace those in paragraphs 5a, 5b, and 5d:

- A statement that management acknowledges its responsibility for the fair presentation of the supplemental information, including its form and content, in accordance with the regulatory requirements or other applicable or acceptable criteria, and an identification of those requirements or criteria.
- A statement that management believes the supplemental information, including its form and content, is fairly presented in accordance with the regulatory requirements or other applicable or acceptable criteria.

Evaluation of audit results and reporting, including form and content

We generally support the requirements for evaluating the audit results, as well as the elements of the auditor's report. However, in consideration of our comments on materiality and management's representations, we believe that these requirements necessitate some clarification and revision in regards to the basis of presentation and the form of opinion as it relates to form and content. As previously indicated, we believe that the supplemental information would need to be prepared and presented in accordance with some form of criteria and that the proposed standard seems to imply a different materiality level in regards to whether the form and content of such information complied in accordance therewith.

We agree with requiring the auditor to evaluate form and content. We also agree with the statement in the release that indicates that the proposed standard requires this evaluation because it is important to the auditor's evaluation as to whether the supplemental information is fairly stated. Accordingly, we believe that the PCAOB intends that the evaluation of form and content is one element of forming an opinion on the supplemental information in relation to the financial statements, rather than a separate and distinct evaluation requiring the need to obtain a greater level of assurance. To alleviate any potential confusion and to clarify the auditor's responsibility, we believe that the evaluation required by paragraph 6 and the form of opinion required in paragraph 10e, including the illustrative report example in paragraph 13, could be modified by using a construct that is similar to our proposed revisions related to management's representations. For example, we believe that the auditor's opinion may be worded as follows:

In our opinion, the supplemental information is fairly stated (or presented), in all material respects in relation to the financial statements as a whole, in accordance with the relevant regulatory requirements or other applicable or acceptable criteria.

We view an opinion as to fair presentation in the context of the criteria with which the supplemental information is prepared and presented. Also, reference to form and content is not necessary because fair presentation in accordance with specified criteria encompasses form and content. Further, the above form of opinion could eliminate any potential misunderstanding related to an opinion on compliance and its overlap with the examination report, as described previously.

We further suggest the following:

- Modifying paragraph 6 so that the evaluation of audit results is in the context of the auditor's responsibility to form an opinion on the supplemental information. This will assist with differentiating the requirement from that described in paragraph 4f.
- Including a reference to AU sec. 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, in the note to paragraph 8. This guidance may be necessary in situations in which the date of the auditor's report on supplemental information is subsequent to the date of the auditor's report on the financial statements.
- Modifying paragraph 9 to more clearly address the auditor's responsibility when an adverse or disclaimer of opinion was expressed on the financial statements. As we previously indicated, we believe the auditor should be prohibited from expressing an in relation to opinion on the supplemental information in this circumstance.
- Clarifying the applicability of paragraph 10f in regards to different bases of presentation. First, we believe that this form of reporting would only seem relevant to those situations in which supplemental information is included in an SEC filing, but is not otherwise required by the rules and regulations of the SEC or another regulatory body (paragraph A2c). It would help to clarify this point. However, in this circumstance, we would simply expect management to disclose the basis of presentation. Therefore, indicating that the basis of presentation differs from that used to prepare the financial statements may not be necessary, particularly if the form of opinion on the supplemental information references the basis of presentation disclosed by management.

Proposed amendments

In regards to the proposed amendments, we believe that paragraph .05 of AU sec. 558, *Required Supplementary Information*, may require additional revision because the differentiation between *client-prepared* and *auditor-submitted* is no longer relevant. This same observation applies to AU sec. 9342, *Auditing Accounting Estimates: Auditing Interpretations of AU Section 342*.

We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,

