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Report on

2015 Inspection of Deloitte & Touche LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

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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

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PCAOB
Public Company Accounting Oversight Board

2015 INSPECTION OF DELOITTE & TOUCHE LLP

Preface

In 2015, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Deloitte & Touche LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.D of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report, portions of Appendix B, Appendix C, and Appendix D. Appendix B consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix C presents the text of the paragraphs of the auditing standards that are referenced in Part I.A in relation to the description of auditing deficiencies there.

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization will be effective as of December 31, 2016, but the reorganized numbering system may be used before that date. In this report, citations to PCAOB auditing standards use the numbering system and titles of standards that were in effect at the time of the primary inspection procedures. A table cross-referencing the section numbers of those standards included in Part I of this report as reorganized is included at Appendix D.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1] for the inspection from October 2014 to April 2016. The inspection team performed field work at the Firm's National Office and at 31 of its approximately 65 U.S. practice offices.

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 54 issuer audits performed by the Firm and a review of the Firm's audit work on one other issuer audit engagement in which the Firm played a role but was not the principal auditor. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. One of the deficiencies related to auditing aspects of an issuer's financial statements that the issuer restated after the primary inspection procedures.[2] In addition, in this audit, the Firm revised its opinion on the effectiveness of the issuer's internal control over financial reporting ("ICFR") after the primary inspection procedures to express an adverse opinion.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix C to this report. The references in this sub-Part include only standards that

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[1] For this purpose, the time span for "primary procedures" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

[2] The 2015 inspection did not include review of any additional audit work related to the restatement.

primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in the references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain of 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 appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective ICFR. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and/or the issuer maintained effective ICFR.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[3]

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[3] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Depending upon the circumstances, compliance with PCAOB 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

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.13, below.

Effects on Audit Opinions

Deficiencies in all of the 13 audits that appear in Part I.A relate to testing controls for purposes of the ICFR opinion, and deficiencies in nine audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the nine audits in which substantive testing deficiencies were identified, two audits included deficiencies in substantive testing that the inspection team determined were caused by a reliance on controls that was excessive in light of deficiencies in the testing of controls.

	Number of Audits
Deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	9
Deficiencies included in Part I.A related to the ICFR audit only	4
Total	13

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that are included most frequently in Part I.A of this report. A general description of each type is provided in the table; the description of each deficiency in Part I.A contains more specific information about the individual deficiency. The table includes only the three

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prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

most frequently identified deficiencies that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Issue	Part I.A Audits
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing.	9 Audits: Issuers B, C, E, F, G, J, K, L, and M
Failure to sufficiently test significant assumptions or data that the issuer used in developing an estimate.	5 Audits: Issuers B, C, E, F, and G
Failure to identify and test any controls that addressed the risks related to a particular account or assertion.	4 Audits: Issuers A, H, I, and J

Audit Deficiencies

A.1. Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer entered into arrangements with multiple elements that consisted of services and software and that represented a significant portion of total revenue. The issuer's policy was to first allocate the arrangement consideration to the services deliverables using vendor-specific objective evidence ("VSOE") of fair value and then allocate any residual consideration to the software deliverable. The issuer deferred the recognition of revenue for services until they were rendered and recognized revenue for software upon delivery. The Firm failed to perform sufficient procedures related to revenue from multiple-element arrangements, for which the Firm identified a fraud risk. Specifically –

- The Firm's procedures related to the allocation of revenue were insufficient as follows –

  - The Firm identified and tested two controls over the allocation of revenue to the services and software deliverables. The controls consisted of the reviews of (1) the issuer's input of certain contract terms into its financial reporting system and (2) adjustments to defer revenue for certain services deliverables when the issuer's VSOE of fair value, determined using a standard price, exceeded its contract price. The Firm failed to identify that these controls were not designed to address whether (1) VSOE of fair value existed for the issuer's services and (2) the total arrangement consideration was appropriately allocated to the services and software deliverables in the arrangement; the Firm failed to identify and test any other controls that addressed these matters. (AS No. 5, paragraph 39)

  - The Firm failed to sufficiently test whether VSOE of fair value existed for the issuer's services included in multiple-element arrangements. For one category of services, the Firm failed to perform any procedures to test whether the contract price, which the issuer asserted was representative of the VSOE of fair value, was consistent with the prices that the issuer customarily charged when this category of services was sold separately. For the other category of services, the Firm tested the issuer's assertion that VSOE of fair value existed by comparing prices in a sample of invoices obtained from the issuer's general ledger to a standard price. The Firm, however, failed to test whether the population of general ledger transactions from which it selected its sample was limited to standalone and separate sales. In addition, the Firm failed to test, through any of its procedures, whether the total arrangement consideration was appropriately allocated to the services and software deliverables in the arrangement. (AS No. 13, paragraphs 8 and 13; AU 350, paragraph .17)

- The Firm's procedures related to the recognition of revenue were insufficient as follows –

  - The Firm failed to identify and test any controls that addressed the issuer's evaluation of (1) whether revenue for software and services was recorded in the appropriate period and (2) whether the total arrangement consideration was fixed or determinable given the contract terms. (AS No. 5, paragraph 39)

- o The Firm failed to perform sufficient substantive procedures to test certain aspects of the recognition of revenue for certain elements in the arrangement. Specifically, the Firm's procedures to determine whether software had been delivered or services had been rendered were insufficient, as those procedures were limited to inquiring of management and inspecting dates recorded in the issuer's systems without testing the accuracy of these dates. In addition, in determining that revenue recognition for the arrangements was appropriate, the Firm failed to take into account that the service periods and related fees were not known until after the software was installed. (AS No. 13, paragraphs 8 and 13)

- The Firm designed its procedures to test the allocation and recognition of revenue – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, the sample sizes that the Firm used to test revenue were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

A.2. Issuer B

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer reported its mortgage loans at fair value and determined the fair values using a discounted cash-flow model. The Firm's procedures to test the valuation of mortgage loans, which were a significant portion of the issuer's total assets, were not sufficient. Specifically –

- Two of the significant assumptions that the issuer used in its discounted cash-flow model were (1) the estimated fair value of properties underlying the mortgage loans and (2) the discount rate applied to the estimated future cash flows. The Firm selected for testing three controls that consisted of periodic reviews and approvals of certain information, including these two assumptions, but the Firm's procedures to test these controls were not sufficient. Specifically –

- o The issuer determined the estimated fair value of the underlying properties based, in part, on broker quotes. One of the controls that the Firm selected for testing consisted of periodic comparisons of the recorded fair values to updated broker quotes. For those properties with differences over an established threshold, the control owner obtained a valuation from an external party and used the valuation in determining the fair value of the property. While the Firm inspected evidence that the issuer obtained updated valuations for those properties with differences in excess of an established threshold, it failed to ascertain and evaluate the appropriateness of the procedures that the control owner performed to determine the final fair value of these properties. (AS No. 5, paragraphs 42 and 44)

- o The other two controls that the Firm selected for testing consisted of monthly reviews and approvals of assumptions used in the discounted cash-flow model. The Firm's procedures to test these controls were limited to identifying changes in certain assumptions, inquiring of issuer personnel, comparing the assumptions to supporting documents, obtaining evidence of review and approval, and inspecting certain documents used in the operation of the control. The Firm failed to sufficiently test whether these controls operated at a level of precision that would prevent or detect material misstatements, as it failed to evaluate the nature of the specific procedures performed by the control owners, including the criteria used to identify matters for follow up and the resolution of such matters. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to perform sufficient procedures to test the valuation of the issuer's mortgage loans. An important assumption that the issuer used in its discounted cash-flow model was a factor to account for the lack of liquidity related to the underlying properties. The Firm's procedures to test the liquidity factors consisted of (1) comparing the issuer's liquidity factors for underlying properties to a range that the Firm's internal specialist indicated was typical based on his experience with models used by others and noting that the issuer's liquidity factors fell within this range and (2) performing a sensitivity analysis by changing the issuer's liquidity factors for individual properties to reflect the midpoint in the issuer's range of factors for all properties. The Firm, however, failed to evaluate whether the range of values indicated by its internal specialist related to loans that were comparable to those that the issuer held and provided a reasonable basis to enable the Firm to identify potential material misstatements in the valuation of the issuer's mortgage loans. In addition, the Firm's use of the midpoint in the issuer's range of factors when performing its sensitivity analysis did not provide the Firm with any information to evaluate whether the range provided by the internal specialist was appropriate to provide sufficient evidence. (AU 328, paragraphs .26, .28, .31, and .36)

A.3. Issuer C

In this audit of an issuer that provides equipment and services to companies in the oil and gas industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as its procedures related to long-lived assets, which represented a significant portion of the issuer's total assets, were insufficient. Specifically –

- The Firm selected for testing a control that consisted of the following elements: (1) the review of certain events or changes in circumstances to identify long-lived assets with carrying amounts that may not be recoverable and (2) the preparation and review of an impairment analysis for each of the identified long-lived assets. The Firm's procedures to test this control were not sufficient. Specifically –

    - The Firm failed to evaluate whether this control was designed to prevent or detect material misstatements related to the identification of long-lived assets that might not be recoverable. Specifically, the Firm failed to determine whether the criteria that the issuer used in the operation of the control to identify assets that might not be recoverable were appropriate to identify all events or changes in circumstances contemplated in Financial Accounting Standards Board ("FASB") Accounting Standard Codification Subtopic 360-10, *Property, Plant, and Equipment – Overall*. (AS No. 5, paragraph 42)

- While the Firm inspected evidence that the issuer prepared and reviewed an impairment analysis for each identified asset, the Firm's procedures to test the effectiveness of the review of the significant assumptions used in these analyses were limited to inquiring of management, attending certain meetings, and inspecting evidence that the review occurred and resulting changes were made to the analyses. These procedures were insufficient, as the Firm failed to evaluate the appropriateness of the specific review activities that the control owner performed to assess the reasonableness of the significant assumptions. (AS No. 5, paragraphs 42 and 44)

- The Firm's substantive testing of long-lived assets was not sufficient in the following respects –

  - The Firm failed to evaluate whether the following events and changes in circumstances, which were documented in its work papers, could affect the recoverability of the issuer's long-lived assets: (1) significant declines in oil prices during the year; (2) significant declines in the amount of time certain assets were used in the current year compared to the prior year; and (3) the scheduled expiration of certain significant customer contracts in the upcoming year without replacement contracts. (AS No. 14, paragraph 3; AU 342, paragraph .11)

  - The cash-flow forecasts that the issuer used in evaluating the long-lived assets for possible impairment incorporated assumptions about the price it expected to charge customers and the utilization of each asset. The issuer created multiple scenarios by varying the expected price and utilization, and it judgmentally weighted each scenario to develop a probability-weighted estimate of undiscounted cash flows for each long-lived asset. The Firm failed to sufficiently evaluate the reasonableness of certain significant assumptions underlying the cash-flow forecasts. First, the Firm's procedures to test the reasonableness of the issuer's weighting of the scenarios were limited to inquiring of management. In addition, the Firm's procedures to test the reasonableness of the expected price and utilization assumptions were limited to inquiring of management and comparing these assumptions to historical data for consistency, without considering the events and changes in circumstances described above. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.4. Issuer D

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. Most of the issuer's revenue was derived from long-term contracts, including government contracts, and was recognized using the percentage-of-completion ("POC") method. The Firm's procedures related to the issuer's revenue were insufficient. Specifically –

- For a category of POC revenue that represented a significant portion of the issuer's total revenue, the Firm selected for testing two controls that involved reviews of the estimated costs to complete and the status of each project. The Firm, however, failed to identify and test any controls over the accuracy and completeness of certain important data that the control owners used in the operation of these controls. (AS No. 5, paragraph 39)

- The issuer entered into an agreement close to year end that modified the terms of certain of its existing and future POC contracts. The modifications related to the recovery of plant and equipment costs and also required the issuer to increase its future investments in plant and equipment. The issuer accounted for this agreement as a change order that significantly increased its net income for the year. The Firm's procedures to test the issuer's accounting for this agreement, and the adequacy of the related disclosures, were insufficient. Specifically –

    - The Firm failed to sufficiently evaluate whether the issuer's recording of revenue and profit during the year related to this agreement was appropriate. Specifically, in considering whether a portion of these amounts should have been deferred, the Firm failed to take into account anticipated future contracts and the issuer's commitment to make future investments in plant and equipment pursuant to the agreement. (AS No. 14, paragraph 30)

- o Based on the agreement, the issuer reduced the estimated useful lives of certain plant and equipment for financial reporting purposes to be consistent with the revised cost recovery period specified in the agreement. While the Firm obtained an understanding of the issuer's rationale for changing the estimated useful lives of the plant and equipment, the Firm failed to evaluate the reasonableness of the revised estimated useful lives. (AU 342, paragraph .11)

- o The Firm failed to evaluate whether the disclosures in the issuer's financial statements related to the agreement were in conformity with GAAP. (AS No. 14, paragraphs 30 and 31)

A.5. Issuer E

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm failed to perform sufficient procedures related to goodwill and other intangible assets, which represented a significant portion of total assets. Specifically –

  - o The Firm selected for testing a control that consisted of reviews of the issuer's budget and forecasted financial results by senior management. The issuer used the budget and forecasted financial results to prepare cash-flow projections that it used in its annual assessment of the possible impairment of goodwill and indefinite-lived intangible assets and in its determination of the fair value of acquired intangible assets. The Firm failed to sufficiently test this control, as its procedures were limited to (1) inquiring of the control owners and other issuer personnel and (2) inspecting emails and documents with notations that indicated the reviews and certain other actions performed as a result of the reviews had occurred. The Firm's testing did not include evaluating the review procedures performed, including the basis for the control owners' expectations and whether matters identified for follow up were appropriately resolved. (AS No. 5, paragraphs 42 and 44)

- o The Firm's procedures to test the valuation of goodwill and other intangible assets were insufficient. Specifically –

  - ▪ For two of the issuer's reporting units, the Firm's procedures to test the projected profit margins and/or the forecasted revenue growth rates underlying the cash-flow projections that the issuer used in the assessment of the possible impairment of goodwill consisted of (1) comparing the assumptions noted above to historical information and/or selected peer data, which showed variances; (2) inquiring of management; and (3) developing independent estimates of the cash-flow projections. These procedures did not provide sufficient evidence because the Firm failed to identify a significant mathematical error in each of its independent estimates of the cash-flow projections, which caused both of the reporting units' calculated fair values to be greater than their carrying values. (AU 328, paragraphs .26, .28, .31, .36, and .40)

  - ▪ For another reporting unit, the issuer recorded an impairment charge for an indefinite-lived intangible asset. The forecasted revenue growth rate for this reporting unit was a significant assumption that the issuer used in its determination of this impairment charge. The Firm failed to sufficiently evaluate the reasonableness of the forecasted revenue growth rate. Specifically, in evaluating whether the forecasted growth rate was reasonable, the Firm limited its procedures to inquiry, even though the following circumstances were documented in its work papers: (1) a decline in demand for the reporting unit's products; (2) increased competition; (3) the significant shortfall in this reporting unit's actual revenue for the current year compared to its previously budgeted revenue; (4) the decline in this reporting unit's revenue over the previous six years; and (5) for certain future years, the fact that the revenue growth projections used by the issuer were higher than industry averages that the Firm obtained from an external source. In addition, the Firm failed to evaluate whether these events and changes in circumstances, including the impairment charge that the issuer had recorded for the indefinite-lived intangible asset, were indicators that the carrying value of other intangible assets held by this reporting unit might not be recoverable. (AS No. 14, paragraph 3; AU 328, paragraphs .26, .28, .31, and .36; AU 342, paragraph .11)

- The Firm failed to perform sufficient procedures to test a category of revenue at one of the issuer's reporting units; this revenue represented a significant portion of the issuer's total revenue. The Firm performed analytical procedures that it intended to be its primary substantive testing of this revenue, and it developed the expectations that it used in the analytical procedures using historical data adjusted for certain current-period activity and industry information. In developing these expectations, however, the Firm used sales volume data that were derived from the same information source that the issuer used to calculate and record this revenue. The Firm's procedures to test the sales volume data were limited to testing one control that consisted of the issuer's comparison of recorded sales volume data to forecasted amounts. This control, however, relied on the effectiveness of the control noted above, which the Firm had insufficiently tested. In addition, when developing its expectations, the Firm failed to consider that the industry survey information, which was referenced in its work papers, indicated variability in current-period revenue activity among certain geographical markets within this reporting unit. (AU 329, paragraphs .16 and .17)

A.6. <u>Issuer F</u>

In this audit of a manufacturer of technology products, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as its procedures related to the valuation of one category of inventory, which represented a significant portion of the issuer's total inventory and had increased significantly from the prior year, were insufficient. Specifically –

- The Firm selected for testing a control that consisted of quarterly meetings in which management reviewed forecasted sales of inventory, including this category of inventory. These forecasts were an important factor in the issuer's determination of its reserve for this inventory. The Firm limited its procedures to test this control to inquiring of management, inspecting meeting invitations, and inspecting a report presented in one meeting. The Firm failed to evaluate whether this control operated at a level of precision that would prevent or detect material misstatements, as it failed to evaluate the nature of the procedures performed by the control owners, including the criteria used to identify matters for follow up and the resolution of such matters. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to perform sufficient procedures to test the issuer's reserve for a new product that represented the majority of this category of inventory. The Firm performed certain procedures with respect to the overall reserve, such as reading public information about the general market for the issuer's products and performing a retrospective review of prior sales forecasts for certain products. The Firm, however, limited its procedures related to the sales forecast for the new product to (1) comparing the sales forecast used in determining the reserve to the forecast approved by the issuer's board of directors and noting that the approved forecast indicated significantly lower sales volume; (2) inquiring of management; (3) reading a memorandum prepared by management; and (4) inspecting a customer-developed sales forecast, which it obtained from the issuer, that covered a small portion of the balance of this new product. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.7 <u>Issuer G</u>

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. During the year, the issuer acquired three significant businesses in one of its segments. The Firm's procedures related to the valuation of the identifiable intangible assets acquired in these business combinations were insufficient. Specifically –

- The Firm selected for testing a control that consisted of management's review of the amounts recorded for assets acquired and liabilities assumed in the business combinations. The Firm's procedures to test this control were limited to inquiring of management and inspecting certain supporting schedules related to one acquisition. The Firm failed to ascertain and evaluate the review activities that the control owner performed to assess the reasonableness of the fair values recorded for the acquired identifiable intangible assets; therefore, the Firm failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- The Firm's procedures to evaluate the reasonableness of the fair values recorded for the acquired identifiable intangible assets were insufficient. Specifically, the Firm limited its procedures to (1) obtaining a schedule of purchase price adjustments and (2) comparing the recorded fair values as a percentage of the total acquired intangible assets, including goodwill, to the corresponding percentages, based upon the provisional amounts, for certain previous acquisitions that occurred in another of the issuer's segments. These procedures were insufficient, as the Firm (1) failed to evaluate whether the previous acquisitions were relevant and comparable to these acquisitions and (2) failed to take into account that the issuer had subsequently adjusted the provisional amounts for the previous acquisitions. (AU 328, paragraphs .26, .28, .31, and .36)

A.8. <u>Issuer H</u>

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as the controls the Firm selected for testing did not sufficiently address the risks related to the accuracy of the recorded revenue amounts. The Firm identified and tested a total of three controls over revenue. One of the controls consisted of the issuer's comparison of the terms in customer purchase orders to the terms for those orders entered into the issuer's accounting system. The other two controls were automated information technology ("IT") controls designed to (1) compare prices to a master price list and suspend the processing of orders with pricing differences over certain thresholds and (2) generate customer invoices and record product sales at the time products were shipped. The Firm failed to identify that the controls it selected and tested were not designed to address, and it did not identify and test any other controls that addressed, the accuracy of (1) the master price list used in the first IT control and (2) the quantities used in the second IT control that were included in the invoices and used to record product sales. (AS No. 5, paragraph 39)

A.9. Issuer I

In this audit of an oil and gas producer, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The Firm identified one control to address the risks related to the periodic approval and recording of certain significant expenditures that the issuer capitalized. The Firm failed to test the design and operating effectiveness of this control, or to identify and test any other controls that would address the risks. (AS No. 5, paragraph 39)

A.10. Issuer J

In this audit of a retailer of equipment, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures related to certain significant property and equipment that was located at the issuer's store locations were insufficient. Specifically –
  - The Firm failed to sufficiently test a control that it had selected for testing, which consisted of management's review of certain information, including historical and projected cash-flow information at the store level, to identify indicators of possible impairment of property and equipment at the store locations. The Firm documented that this control depended on the effectiveness of two other controls to address the reliability of the information used in the operation of this control. The Firm failed, however, to obtain evidence that these two controls were effective to address the reliability of the information, as follows. One of these controls was not designed to address the reliability of the historical and projected cash flows at the individual store level. The other control consisted of a review of the historical and projected cash flows at both the individual store level and the reporting unit level, but the Firm did not test the aspect of the control that addressed the reliability of the cash flows at the individual store level. (AS No. 5, paragraphs 42 and 44)

  - o The Firm failed to perform sufficient procedures to test the issuer's analysis to identify indicators of possible impairment of certain significant property and equipment at its store locations. Specifically, the Firm failed to test controls over the historical and projected cash flows for the individual stores that the issuer used in its analysis, as described above, and failed to perform any substantive testing of such cash flows. (AU 342, paragraph .11)

- The Firm's procedures related to the existence of certain of the issuer's inventory were insufficient. The Firm identified and tested one control that consisted of a review of the issuer's reconciliation of its cycle-count results to the inventory system and its investigation of variances above certain thresholds. The Firm, however, failed to identify that this control was not designed to address, and failed to identify and test any other controls that addressed, whether sufficient inventory items were counted with sufficient frequency and that the deviations did not exceed an acceptable level. (AS No. 5, paragraph 39)

A.11 Issuer K

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. During the year, the issuer acquired a significant business. The Firm selected for testing two controls over the valuation of the acquired intangible assets. The first control consisted of management's review and approval of the forecasted cash flows that were used in the purchase price allocation, but the Firm's procedures to test this control were not sufficient. Specifically, the Firm's procedures were limited to inquiring of management and attending a meeting, without evaluating the appropriateness of the specific steps that the control owners took to review the forecasts, including the criteria used to identify items for follow up and the process for resolving those items. The second control consisted of management's review of the accounting for the acquisition, but this control depended, in part, on the effectiveness of the first control, which was not sufficiently tested. (AS No. 5, paragraphs 42 and 44)

A.12. Issuer L

In this audit of a distributor and retailer of consumer products, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. Approximately one third of the issuer's inventory was held at one warehouse. The Firm identified and tested one control over the existence of this inventory, which consisted of the issuer's cycle-count procedures. The Firm failed to obtain any evidence about whether the physical cycle counts contemplated by this control were actually performed. In addition, the Firm failed to test the aspect of the control that addressed the accuracy and completeness of reports that the issuer used in this control to monitor and evaluate whether cycle-count deviations exceeded an acceptable level. (AS No. 5, paragraphs 42 and 44)

A.13. Issuer M

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer operated in a large number of tax jurisdictions, and the Firm failed to perform sufficient procedures related to certain aspects of the issuer's accounting for income taxes. Specifically –

- The Firm selected for testing two controls that consisted of quarterly and annual reviews of certain reports and schedules for the identification and valuation of the issuer's uncertain tax positions. The Firm's procedures to test these controls were limited to inquiring of management, inspecting evidence that reviews occurred, tracing certain income tax account balances included in the reports and schedules to the general ledger, and, for a sample of tax jurisdictions, comparing various issuer-prepared reports and schedules for consistency. These procedures were insufficient, as the Firm failed to evaluate the appropriateness of the specific steps that the control owners took to review the issuer's uncertain tax positions. (AS No. 5, paragraphs 42 and 44)

- The Firm designed its substantive procedures to test uncertain tax positions – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, the sample sizes that the Firm used to test uncertain tax positions were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also may relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement. AS No. 15, *Audit Evidence*, paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of ICFR) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.

For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	**Audits**	**Number of Deficiencies per Audit**
AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer B Issuer C Issuer D Issuer E Issuer F Issuer G Issuer H Issuer I Issuer J Issuer K Issuer L Issuer M	2 2 2 1 1 1 1 1 1 2 1 1 1
AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer A Issuer M	3 1
AS No. 14, *Evaluating Audit Results*	Issuer C Issuer D Issuer E Issuer F	2 2 1 1
AU 328, *Auditing Fair Value Measurements and Disclosures*	Issuer B Issuer E Issuer G	1 2 1
AU 329, *Substantive Analytical Procedures*	Issuer E	1

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
AU 342, *Auditing Accounting Estimates*	Issuer C Issuer D Issuer E Issuer F Issuer J	2 1 1 1 1
AU 350, *Audit Sampling*	Issuer A Issuer M	2 1

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to each deficiency included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed.

	AS No. 5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Business combinations	G, K			G			
Capitalized costs	I						
Definite-lived long-lived assets, including amortization	C, J		C, D			C, D, J	
Impairment of goodwill and intangible assets	E		E	E		E	
Income taxes	M	M					M
Inventory and related reserves	F, J, L		F			F	
Mortgage loans	B			B			
Revenue, including deferred revenue	A, D, H	A	D		E		A

B.3. Audit Deficiencies by Industry

The table below lists the industries[4] of the issuers for which audit deficiencies were discussed in Part I.A of this report and cross-references the issuers to the specific auditing standards related to the deficiencies.[5]

	AS No.5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Consumer Discretionary	E, L		E	E	E	E	
Energy	C, I		C			C	
Financial Services	B			B			
Industrials	D, G, J		D	G		D, J	
Information Technology	A, F, H, K, M	A, M	F			F	A, M

C. Data Related to the Issuer Audits Selected for Inspection[6]

C.1. Industries of Issuers Inspected

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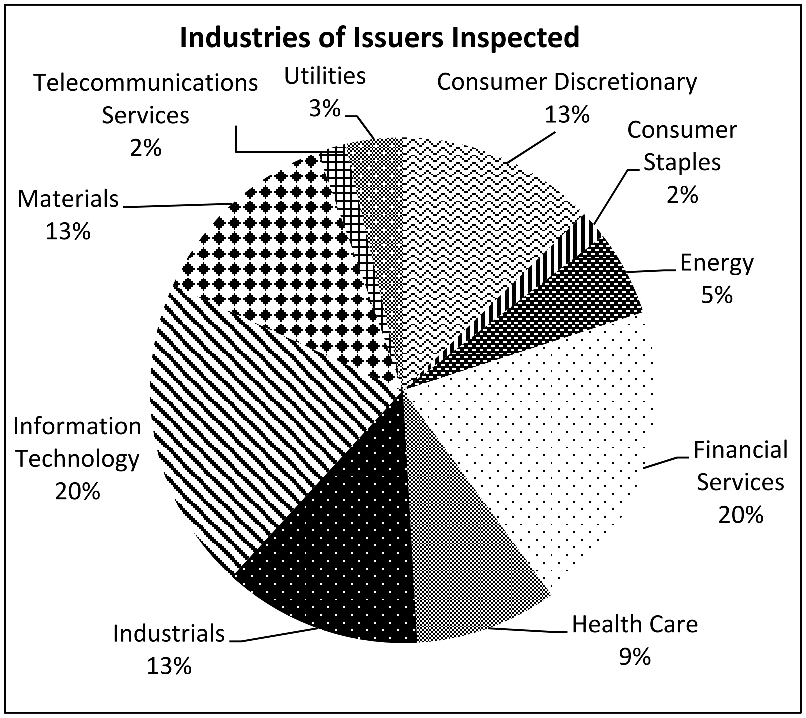
4 The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

5 Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

6 Where the audit work inspected related to an engagement in which the Firm played a role but was not the principal auditor, the industry and the revenue included in the tables and charts in this section are those of the entity for which an audit report was issued by the primary auditor. As discussed above, the inspection process included reviews of portions of 54 selected issuer audits completed by the Firm and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor.

The chart below categorizes the 55 issuers whose audits were inspected in 2015, based on the issuer's industry.[7]



Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	7	13%
Consumer Staples	1	2%
Energy	3	5%
Financial Services	11	20%
Health Care	5	9%
Industrials	7	13%
Information Technology	11	20%
Materials	7	13%
Telecommunications Services	1	2%
Utilities	2	3%

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 55 issuers whose audits were inspected in 2015.[8] This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of

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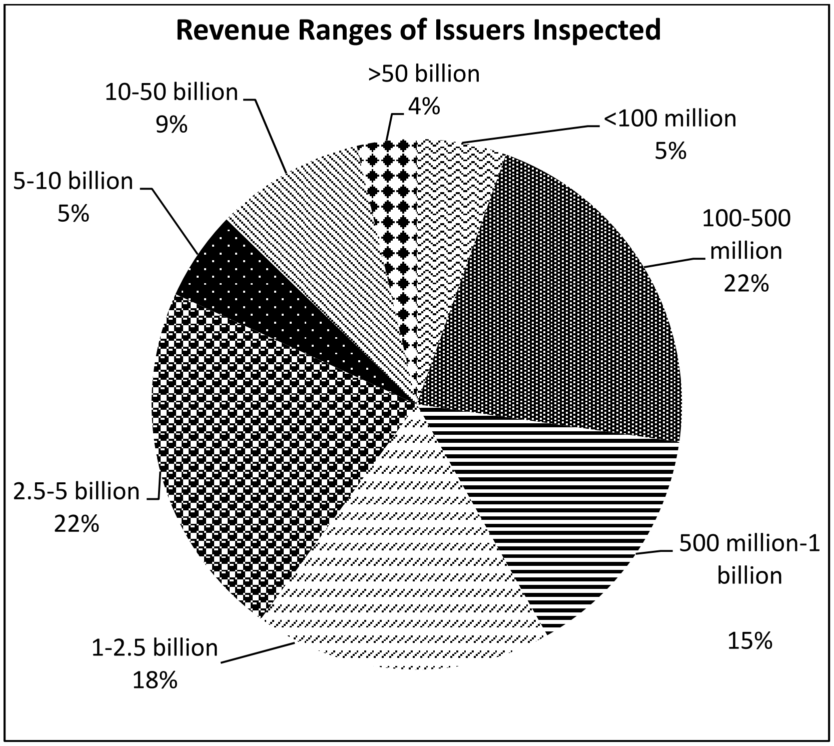
7 See Footnote 4 for additional information on how industry sectors were classified.

8 The revenue amounts reflected in the chart are for the issuer's fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.

whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.



Revenue (in US$)	Number of Audits inspected	Percentage
<100 million	3	5%
100-500 million	12	22%
500 million -1 billion	8	15%
1-2.5 billion	10	18%
2.5-5 billion	12	22%
5-10 billion	3	5%
10-50 billion	5	9%
>50 billion	2	4%

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects 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. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

D.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of ICFR. For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[9] as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection of an annually inspected firm does not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

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[9] When it comes to the Board's attention 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 the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation,* 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. In reaching its conclusions, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.[10]

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing

[10] 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. In addition, any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

deficiencies are present, rather than through a process intended to identify a representative sample.

D.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice,* provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of the firm's role in an audit may indicate a defect or potential defect in a firm's quality control system.[11] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team

[11] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

considers the nature, significance, and frequency of deficiencies;[12] related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (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 issuer audit engagements, 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 audits; and (5) the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

D.2.a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a

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[12] An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.2.b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area are designed to focus on (1) whether 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 distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

D.2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I

PART II, PART III, AND APPENDIX A OF THIS REPORT ARE
NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX B

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.[13]

[13] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. 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.

Deloitte.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

July 25, 2016

Ms. Patricia J. Thompson
Deputy 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 2015 Inspection

Dear Ms. Thompson:

Deloitte & Touche LLP is pleased to submit this response to the draft Report on the 2015 Inspection of Deloitte & Touche LLP (the Draft Report) of the Public Company Accounting Oversight Board (the PCAOB or the Board). We believe that the PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

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 and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities under AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.*

Executing high quality audits is our number one priority. We are confident that the investments we have made and are continuing to make in our audit processes, policies, and quality controls are resulting in significant enhancements to our audit quality.

Sincerely,

Cathy Engelbert Joe Ucuzoglu

Cathy Engelbert
Chief Executive Officer
Deloitte LLP

Joe Ucuzoglu
Chairman and CEO
Deloitte & Touche LLP

APPENDIX C

AUDITING STANDARDS REFERENCED IN PART I.A

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
USING A TOP-DOWN APPROACH		
Selecting Controls to Test		
AS No. 5.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, D, H, I, and J
TESTING CONTROLS		
Testing Design Effectiveness		
AS No. 5.42	The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements. Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.	Issuers B, C, E, F, G, J, K, L, and M

AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
Testing Operating Effectiveness		
AS No. 5.44	The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively. Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.	Issuers B, C, E, F, G, J, K, L, and M

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*		
Responses Involving the Nature, Timing, and Extent of Audit Procedures		
AS No. 13.8	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuer A
RESPONSES TO FRAUD RISKS		
AS No. 13.13	*Addressing Fraud Risks in the Audit of Financial Statements*. In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs 16-17 of this standard, the auditor should perform tests of those controls.	Issuer A

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*

Testing Controls		
TESTING CONTROLS IN AN AUDIT OF FINANCIAL STATEMENTS		
AS No. 13.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on controls,[12/] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire **period of reliance**.[13/] However, the auditor is not required to assess control risk at less than the maximum for *all* relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	Issuers A and M

Footnotes to AS No. 13.16

[12/] Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures.

[13/] Terms defined in Appendix A, *Definitions*, are set in **boldface type** the first time they appear.

AS No. 13.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements*. In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness of a control. The auditor should obtain more persuasive audit evidence from tests of controls the greater the reliance the auditor places on the effectiveness of a control. The auditor also should obtain more persuasive evidence about the effectiveness of controls for each relevant assertion for which the audit approach consists primarily of tests of controls, including situations in which substantive procedures alone cannot provide sufficient appropriate audit evidence.	Issuers A and M
Substantive Procedures		
AS No. 13.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends	Issuers A and M

AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*		
	upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	

AS No. 14, *Evaluating Audit Results*		
Evaluating the Results of the Audit of Financial Statements		
AS No. 14.3	In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	Issuers C, E, and F
EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES		
AS No. 14.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AU sec. 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuer D
AS No. 14.31	As part of the evaluation of the presentation of	Issuer D

AS No. 14, *Evaluating Audit Results*		
	the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. Note: According to AU sec. 508, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.[18/]	
Footnote to AS No. 14.31 [18/] AU secs. 508.41-.44.		

AU 328, *Auditing Fair Value Measurements and Disclosures*		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AU 328.26	The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether: a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06). b. The fair value measurement was determined using an appropriate model, if applicable. c. Management used relevant information that was reasonably available at the time.	Issuers B, E, and G

AU 328, *Auditing Fair Value Measurements and Disclosures*		
AU 328.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers B, E, and G
AU 328.31	Assumptions ordinarily are supported by differing types of evidence from internal and external sources that provide objective support for the assumptions used. The auditor evaluates the source and reliability of evidence supporting management's assumptions, including consideration of the assumptions in light of historical and market information.	Issuers B, E, and G
AU 328.36	To be reasonable, the assumptions on which the fair value measurements are based (for example, the discount rate used in calculating the present value of future cash flows),[fn 5] individually and taken as a whole, need to be realistic and consistent with: a. The general economic environment, the economic environment of the specific industry, and the entity's economic circumstances; b. Existing market information; c. The plans of the entity, including what management expects will be the outcome of specific objectives and strategies; d. Assumptions made in prior periods, if appropriate; e. Past experience of, or previous conditions experienced by, the entity to the extent currently applicable; f. Other matters relating to the financial statements, for example, assumptions used by management in accounting estimates for financial statement accounts other than those relating to fair value measurements and disclosures; and g. The risk associated with cash flows, if applicable, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate. Where assumptions are reflective of management's intent and ability to carry out specific courses of action, the auditor considers whether they are consistent with the entity's plans and past experience.	Issuers B, E and G

AU 328, *Auditing Fair Value Measurements and Disclosures*		
Footnote to AU 328.36 fn 5 The auditor also should consider requirements of GAAP that may influence the selection of assumptions (see FASB Concepts Statement No. 7).		
Developing Independent Fair Value Estimates for Corroborative Purposes		
AU 328.40	The auditor may make an independent estimate of fair value (for example, by using an auditor-developed model) to corroborate the entity's fair value measurement.[fn 6] When developing an independent estimate using management's assumptions, the auditor evaluates those assumptions as discussed in paragraphs .28 to .37. Instead of using management's assumptions, the auditor may develop his or her own assumptions to make a comparison with management's fair value measurements. In that situation, the auditor nevertheless understands management's assumptions. The auditor uses that understanding to ensure that his or her independent estimate takes into consideration all significant variables and to evaluate any significant difference from management's estimate. The auditor also should test the data used to develop the fair value measurements and disclosures as discussed in paragraph .39.	Issuer E
Footnote to AU 328.40 fn 6 See section 329, *Analytical Procedures*.		

AU 329, *Substantive Analytical Procedures*		
Analytical Procedures Used as Substantive Tests		
Availability and Reliability of Data		
AU 329.16	Before using the results obtained from substantive analytical procedures, the auditor should either test the design and operating effectiveness of controls over financial information used in the substantive analytical procedures or perform other procedures to support the completeness and accuracy of the underlying information. The auditor obtains assurance from analytical procedures based upon the	Issuer E

<table>
<tr><th colspan="3">AU 329, Substantive Analytical Procedures</th></tr>
<tr><td></td><td>consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the analytical procedure. The auditor should assess the reliability of the data by considering the source of the data and the conditions under which it was gathered, as well as other knowledge the auditor may have about the data. The following factors influence the auditor's consideration of the reliability of data for purposes of achieving audit objectives:

• Whether the data was obtained from independent sources outside the entity or from sources within the entity

• Whether sources within the entity were independent of those who are responsible for the amount being audited

• Whether the data was developed under a reliable system with adequate controls

• Whether the data was subjected to audit testing in the current or prior year

• Whether the expectations were developed using data from a variety of sources</td><td></td></tr>
<tr><td>Precision of the Expectation</td><td></td><td></td></tr>
<tr><td>AU 329.17</td><td>The expectation should be precise enough to provide the desired level of assurance that differences that may be potential material misstatements, individually or when aggregated with other misstatements, would be identified for the auditor to investigate (see paragraph .20). As expectations become more precise, the range of expected differences becomes narrower and, accordingly, the likelihood increases that significant differences from the expectations are due to misstatements. The precision of the expectation depends on, among other things, the auditor's identification and consideration of factors that significantly affect the amount being audited and the level of detail of data used to develop the expectation.</td><td>Issuer E</td></tr>
</table>

AU 342, *Auditing Accounting Estimates*		
Evaluating Reasonableness		
AU 342.11	Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach: a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose. f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	Issuers C, D, E, F, and J

AU 350, *Audit Sampling*		
Sampling In Substantive Tests Of Details		
Planning Samples		
AU 350.17	When planning a particular sample, the auditor should consider the specific audit objective to be achieved and should determine that the audit procedure, or combination of procedures, to be applied will achieve that objective. The auditor should determine that the population from which he draws the sample is appropriate for the specific audit objective. For example, an auditor would not be able to detect understatements of an account due to omitted items by sampling the recorded items. An appropriate sampling plan for detecting such understatements would involve selecting from a source in which the omitted items are included. To illustrate, subsequent cash disbursements might be sampled to test recorded accounts payable for understatement because of omitted purchases, or shipping documents might be sampled for understatement of sales due to shipments made but not recorded as sales.	Issuer A
AU 350.19	The second standard of field work states, "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.[fn 3] Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	Issuers A and M
Footnote to AU 350.19 [fn 3] Some auditors prefer to think of risk levels in quantitative terms. For example, in the circumstances described, an auditor might think in terms of a 5 percent risk of incorrect acceptance for the substantive test of details. Risk levels used in sampling applications in other fields are not necessarily relevant in determining appropriate levels for applications in auditing because an audit includes many interrelated tests		

AU 350, *Audit Sampling*		
and sources of evidence.		
AU 350.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuers A and M
AU 350.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample.	Issuers A and M

APPENDIX D

REORGANIZED STANDARDS REFERENCED IN PART I

On March 31, 2015, the PCAOB adopted the reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). On September 17, 2015, the SEC approved the PCAOB's adoption of the reorganization. The reorganization of the standards will be effective as of December 31, 2016. The citations to PCAOB auditing standards included in this report use the numbering system and titles of standards that were in effect at the time of the primary inspection procedures. This table provides the section numbers of those standards included in Part I of this report as reorganized, as well as the titles of the standards both before and after the reorganization. The complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

Auditing Standards – before the reorganization		**Auditing Standards – as reorganized**	
AS No. 3	*Audit Documentation*	AS 1215	*Audit Documentation*
AS No. 5	*An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	AS 2201	*An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*
AS No. 13	*The Auditor's Responses to the Risks of Material Misstatement*	AS 2301	*The Auditor's Responses to the Risks of Material Misstatement*
AS No. 14	*Evaluating Audit Results*	AS 2810	*Evaluating Audit Results*
AS No. 15	*Audit Evidence*	AS 1105	*Audit Evidence*
AU 230	*Due Professional Care in the Performance of Work*	AS 1015	*Due Professional Care in the Performance of Work*
AU 328	*Auditing Fair Value Measurements and Disclosures*	AS 2502	*Auditing Fair Value Measurements and Disclosures*
AU 329	*Substantive Analytical Procedures*	AS 2305	*Substantive Analytical Procedures*
AU 342	*Auditing Accounting Estimates*	AS 2501	*Auditing Accounting Estimates*
AU 350	*Audit Sampling*	AS 2315	*Audit Sampling*