



# Advancing Quality through Transparency Deloitte LLP Inaugural Report.





# A Letter to Stakeholders from Barry Salzberg, CEO of Deloitte LLP

I am pleased to provide you with this report, which includes information about the governance processes, ethical principles and quality control procedures of the Deloitte U.S. Entities, and in particular the audit practice of Deloitte & Touche LLP. Our organization takes seriously our responsibilities to serve investors and the capital markets, and we are dedicated to building confidence in the independent audit process. These objectives are not something vague or abstract; they are fundamental to our responsibility to the public interest and to our professional reputation.

In the current environment of complex, global capital markets and economic crisis, it is critical that we continue to embrace the responsibilities that come with the privilege of being public company auditors. Transparency is an increasingly central element in demonstrating audit quality, and we fully support disclosure that provides investors, audit committees, regulators, and other market participants information that will help them understand our commitment to audit quality.

We are a regulated profession, and we are supportive of the Public Company Accounting Oversight Board (PCAOB) and the oversight role that it plays to strengthen confidence in the integrity of the independent audit process. As discussed in this report, the PCAOB's inspections and our internal processes identify areas warranting improvement, and we have specific activities under way to address these matters. As we strive to continuously improve our audit quality, the more we can do to demonstrate the culture of integrity, professional excellence and accountability that underpins our organization, the more successful we will be in sustaining the trust and confidence of the capital markets and all our stakeholders.

This report, modeled on the requirements of the European Union, provides information on matters directly related to audit quality, such as governance, independence, and the Deloitte Touche Tohmatsu network, as well as specific information about the quality controls in our audit practice.

I am proud of the standards we have in place and proud of our people, who are the primary asset of our organization. It is a privilege to lead an organization of talented professionals who are deeply committed to our reputation and to doing the right thing. There is no substitute for quality, and we continuously strive to improve – by enhancing our audit methodology, our internal quality reviews, and the professional skills of our people.

To that end, we recently began construction of a state-of-the-art facility dedicated to learning and leadership, expected to open in 2011. This decision represents a significant commitment to our people and to the ongoing enhancement of the quality of our service delivery.

We appreciate the interest of each of our stakeholders in our profession and the commitment we all share to the vitality of the capital markets. We hope that this report will help you understand the premium that the Deloitte U.S. Entities place on audit quality and professional excellence.



Barry Salzberg

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# A Reader's Guide to This Report

As public company auditors, we are keenly aware of the important role we play in the proper and efficient functioning of the capital markets and of our need to instill confidence in the integrity and reliability of the independent audit process. The fundamental purpose of this report is to take one more step in furtherance of that objective.

Our firm, like all U.S. accounting firms, is required by state laws to be organized as a private partnership. Therefore, there has been relatively little information publicly available regarding U.S. accounting firms' internal organization, operations, financial performance and quality control systems. In the current environment, we believe increased transparency is an important factor in instilling confidence in the audit process. Accordingly, in the pages that follow we provide information that we hope will afford greater insight into who we are, how we operate, and, perhaps most importantly, what we are doing to maintain and improve the quality and reliability of our audits. Specifically, the information we are providing falls into the following categories:

- Our legal structure and membership in an international network
- Our governance structure
- Our ethics, independence and quality control policies, practices and systems
- Our internal audit quality inspection program and the inspection program of the Public Company Accounting Oversight Board (PCAOB), including the steps we are taking to address any noted weaknesses or deficiencies in our audits
- The U.S. litigation environment and its impact on our public company practice
- How we compensate our partners and principals
- Basic financial information

## The Heart of the Matter

The focus of this report is on a description of the system of quality controls that Deloitte & Touche LLP (the audit practice of Deloitte LLP) has in place to achieve high-quality audits and on the ways we measure our success in reaching that goal, including the results of internal inspections and PCAOB inspections of our audit work. One thing is clear – auditing public companies is, by its nature, a continuous improvement process. While audit quality initiatives are constantly changing, the goal of each is to guide our partners and professionals toward achieving the highest quality audits.

As you will read in the sections of this report, there are several truths when it comes to audit quality:

- There are no established metrics or statistics that are generally agreed to be a measure of audit quality.
- Deloitte strives to achieve quality by utilizing a robust and consistent audit methodology that is delivered through a single audit platform used by all of our professionals.
- We devote hundreds of thousands of hours and hundreds of millions of dollars annually to training our professionals and improving our audit methodologies.
- The hundreds, if not thousands, of decisions and complex judgments made in the course of performing an audit create the risk of making a decision or judgment that will compromise quality. That risk is mitigated through multiple review mechanisms, a support network in the form of consultation resources, and other elements of the system of quality control described further in this report.

### **Continuous Improvement—How It Works**

We are proud of our professionals and our audits. We recognize, however, that because of the constant evolution of our clients' businesses and the complex nature of many of the judgments required in the audit process, we need to make continuous improvements to audit performance. Some of these improvements are a direct response to the comments and observations from our internal inspections and PCAOB inspections. These comments may take the form of a specific criticism of a particular audit procedure or a more general observation about an audit approach that could be improved. We take each comment seriously and work to address it promptly, although some comments may require a longer-term process of change than others.

We are continuously working on a list of projects to enhance audit quality and effectiveness. Among a number of actions during the past several years, we have established the new senior management role of chief quality officer to provide overall leadership for our efforts to improve quality. We have implemented programs to enhance the effectiveness of audit procedures and to integrate improvements into our audit approach. For instance, we have revised our consultation policies to promote more consultation on accounting and auditing matters, particularly on matters involving professional judgment. Our new policies increase the number of required consultations in a variety of circumstances. We have also enhanced our electronic Technical Library to facilitate technical research, and we are completing the development of new guidance and learning modules on the performance of engagement team reviews and engagement quality assurance reviews of audit working papers.

Areas of audit improvement focus have included management estimates and assumptions, asset impairments, income taxes, financial instruments, use of specialists, controls testing approaches and reliance, and professional skepticism. We also have incorporated these areas of focus into our core learning programs across all levels. For example, in 2008, we developed guidance titled "Using Professional Judgment" for all audit personnel, and recently we developed and delivered a mandatory workshop on professional skepticism for all audit partners and directors.

From a systemic perspective, we have established a dedicated group that reviews selected engagements as part of an ongoing effort to promptly determine the root causes of identified audit deficiencies and the related needs and opportunities for systemic changes that will improve audit quality.

### **Final Thoughts as You Read This Report**

The idea of some form of transparency report for auditors of public companies has been discussed for a number of years, and with the recent adoption of the Eighth Company Law Directive in the European Union audit firms have begun publishing such reports in EU countries. This first report is our effort to help investors, regulators and our clients in the United States better understand how we strive to maintain and improve audit quality.

### **Continuous Improvement – An Analogy**

Each year public companies assess the effectiveness of their internal controls over financial reporting (ICFR). For companies with market capitalization of more than \$75 million, auditors also issue an opinion on the effectiveness of those controls. Client audit committees oversee this process as part of their oversight of the broader financial reporting process.

The regulatory regime under the Sarbanes-Oxley Act of 2002 requires annual inspection of our audit work by the PCAOB. While this is very different from an audit of internal controls that we do for our clients, there are some interesting parallels:

**A Client’s ICFR** – Companies strive to achieve effective ICFR and do so by designing and operating an effective system of controls. Deficiencies in ICFR are identified, and management then has the responsibility for remediating them. That work is monitored by the audit committee.

From year to year, the list or “inventory” of control deficiencies is constantly changing, as the business changes, as personnel change, and as new financial reporting requirements become effective. Remediation results in items coming off the list while new items are added to the list as both management and the outside auditor perform their tests of the effectiveness of ICFR. This process is normal, and over time, the goal is to minimize the total number and severity of control deficiencies.

**Audit System of Quality Controls** – There is a parallel to an audit firm’s system of quality control. We strive to design, implement, and operate effective quality controls. Audit firms are required to maintain a system of quality controls under PCAOB and American Institute of Certified Public Accountants (AICPA) professional standards. Deficiencies are identified through both internal inspections by the firm and inspections by the PCAOB. The items vary in severity or importance, and there is always a list of remedial changes in process. The list is never finished because, as with our clients’ ICFR, changes in the business environment, changes in circumstances, changes in personnel, and changes in professional standards all create an environment where change is continuous.

Whether we are addressing identified deficiencies, enhancing our audit methodology, or training our partners and professionals, the audit environment is in a “steady state” of constant change. What is critical is our commitment to execute continuous improvement. Deloitte has made that commitment, and while we will never finish, we aspire to eliminate every deficiency by continuing to improve all aspects of our audit process.

# Legal Structure of Deloitte LLP

## **The Deloitte U.S. Entities**

Deloitte LLP and each of its four primary subsidiaries – Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Consulting LLP, and Deloitte Financial Advisory Services LLP – are private partnerships registered under the laws of the state of Delaware as limited liability partnerships. These subsidiaries are among the leading professional services firms in the United States, providing audit, tax, consulting, and financial advisory services, respectively, through over 40,000 people in more than 90 cities.

Each of the subsidiary partnerships is separately capitalized, operates as a separate legal entity with its own management and governance, and provides a distinct array of services. This structure was designed to align our legal structure with the way we conduct our business. Each of these four subsidiaries is owned by Deloitte LLP and by partners/principals who actively participate in the practice of that subsidiary. Deloitte LLP facilitates the coordination of the activities of its subsidiaries. Deloitte LLP has a management structure and a Board of Directors to provide governance across the organization. Deloitte LLP does not provide services to clients; services are performed by each of the primary subsidiaries.

The firms licensed to practice public accounting in various states (all except Deloitte Consulting LLP) and their partners/principals are also subject to the requirements of state laws as to the licensure of certified public accountants (CPAs) and the operations of the partnerships.

## **Deloitte & Touche LLP**

Deloitte & Touche LLP is the subsidiary of Deloitte LLP that provides audit and other attest services, as well as enterprise risk services, to clients and is registered with the U.S. PCAOB to perform audits of U.S. public companies. Enterprise risk services may assist clients in identifying and assessing uncertainties related to strategic, financial, operational and technology risks. Enterprise risk services professionals play an important role in audit delivery as technology and risk specialists.



# The Deloitte Touche Tohmatsu Network

Deloitte LLP is the U.S. member firm of the Deloitte Touche Tohmatsu (DTT) network. DTT, a Swiss Verein, is an association of member firms that are legally separate and independent of one another. Member firms operate under the Deloitte brand and related names. These names include “Deloitte,” “Deloitte & Touche,” “Deloitte Touche Tohmatsu,” “Tohmatsu,” and others.

## **DTT Network Structure**

The DTT network structure serves to assist the member firms and their respective affiliates in more than 140 countries to maintain high levels of quality and integrity and sustain the trust of their clients, the capital markets, their people, and the public. The DTT Board has adopted certain policies and protocols regarding professional standards and methodologies, and systems for quality control and risk management, in an effort to establish a consistently high level of quality, professional conduct and service in all member firms. Member firms provide services to clients, applying these policies as well as other policies they establish, and exercising professional judgment to achieve compliance with applicable professional standards and local laws and regulations.

DTT does not provide any services to clients, or direct, manage, control or own any interest in any member firm or any member firm affiliates. DTT is funded by annual subscriptions paid by each member firm. DTT does not have partners or shareholders.

Member firms provide professional services in particular geographic areas and are subject to the laws, regulations and professional requirements of the jurisdictions in which they operate. Each member firm is structured differently in accordance with, among others, national laws, regulations and customary practice, and may provide professional services directly or through affiliates or related entities.

Member firms are not subsidiaries or branch offices of DTT and do not act as agents for DTT or other member firms. Rather, they are locally-formed entities with their own ownership structure independent of DTT that have voluntarily become members of the DTT network with a primary purpose to coordinate their approach to client service, professional standards, shared values, methodologies, and systems of quality control and risk management. This structure confers significant strengths, combining high-quality standards and methodologies with a deep understanding of local markets and a sense of responsibility and initiative among professionals who have a direct stake in the integrity and growth of their respective practices.

# U.S. Governance

## Deloitte LLP

Deloitte LLP is led by an elected chief executive officer (CEO) and an elected chairman. The Deloitte LLP CEO supervises the senior leadership team, which includes

- A deputy CEO and senior advisor
- A deputy CEO and regulatory and public policy leader
- A chief quality officer
- A general counsel
- A leader for professional development and succession
- An operations leader
- A chief financial officer
- A talent (human resources) leader
- A leader of client and marketplace services
- An industry programs leader
- A business strategy leader

The Deloitte LLP chairman, independent of the CEO, heads the Deloitte LLP Board of Directors. The Deloitte LLP Board oversees the strategy and performance of Deloitte LLP's senior management, as well as reviewing and approving action on a variety of governance, operational and administrative matters through various committees.

The Deloitte LLP Board includes the chairman, CEO, and, when applicable, an elected senior partner/principal (the

designation given to a U.S. partner/principal if he or she serves as DTT CEO). The remaining 18 Board seats are held by partners/principals of Deloitte LLP and its subsidiaries.

The CEO, chairman, and other Board members are recommended for election by a Nominating Committee of partners/principals. Before recommending candidates, the Nominating Committee conducts interviews of a large number of partners/principals to obtain insights on attributes for elected leaders and on specific candidates. The recommended candidates must be approved by two-thirds of all voting partners/principals. Board members (other than the chairman, CEO, and senior partner/principal) are elected for three-year staggered terms, with a limit of two consecutive terms. The CEO and chairman are limited to two consecutive four-year terms in their respective positions and serve on the Board for the length of their terms. Two-thirds or more of the members of the Board are licensed certified public accountants.

It is the practice of the Deloitte LLP Board to invite the general counsel and the deputy CEO – regulatory and public policy to all Board meetings in order to consider the legal and regulatory implications of all matters.

### Members of the Deloitte LLP Board of Directors

Sharon L. Allen, CPA, Chairman of the Board  
Barry Salzberg, CPA, Deloitte LLP CEO  
James H. Quigley, CPA, Senior Partner (DTT CEO)

Carl S. Allegretti, CPA	Homi D. Kapadia
Jeffrey H. Black, CPA	Daniel S. Lange, CPA
Jessica L. Blume	Jim S. Moffatt
Deborah L. DeHaas, CPA	Carlos A. Sabater, CPA
Gregory T. Durant, CPA	John D. Salata, CPA
Erik D. Gilberg	Sandra T. Shirai
John J. Grant, CPA	Ellen Stafford-Sigg
Kathryn A. Hollister, CPA	Gregory Swinehart, CPA
Daniel W. Jones, CPA	Gregory G. Weaver, CPA

### Committees of the Deloitte LLP Board of Directors

Evaluation  
Finance & Audit  
Global  
Governance  
Partner Earnings & Benefits  
Risk  
Strategic Investment  
Succession

### **The Deloitte LLP Senior Leadership Team**

Barry Salzberg, CPA, Chief Executive Officer

Mumtaz Ahmed, Chief Strategy Officer

Cathleen A. Benko, Chief Talent Officer

Brian L. Derksen, CPA, Deputy CEO

Joseph J. Echevarria, CPA, Managing Partner – Operations

William C. Freda, CPA, Managing Partner –

Clients & Markets

Robert J. Kueppers, CPA, Deputy CEO –  
Regulatory & Public Policy

John M. Levis, Managing Principal – Region

William F. Lloyd, General Counsel

Raymond W. Lombardi, CPA, Chief Quality Officer

Karen S. Mazer, Managing Principal – Industries

Maritza G. Montiel, CPA, Managing Partner –

Development and Succession

Jeffrey P. Rohr, CPA, Chief Financial Officer

### **Deloitte & Touche LLP**

The Deloitte & Touche LLP CEO and chairman is appointed by the CEO of Deloitte LLP, approved by the Deloitte LLP Board and ratified by the Deloitte & Touche LLP partners/principals. The Deloitte & Touche LLP CEO and chairman appoints members to the Deloitte & Touche LLP Board of Directors (the senior governing body), subject to ratification by the partners/principals of Deloitte & Touche LLP. The Board of Deloitte & Touche LLP is responsible for the overall governance of the audit and enterprise risk services business and the oversight of its management. Specific responsibilities of the Deloitte & Touche LLP Board include, among others, approving the admission of partners/principals, allocation of units and earnings

to partners/principals, the financial aspects of business plans, business combinations and dispositions, severance arrangements, and involuntary terminations.

Senior management of Deloitte & Touche LLP develops the strategy for the audit and enterprise risk services business, consistent with the overall strategic direction established by Deloitte LLP, and oversees its implementation, including all related policies, procedures and leadership appointments. In all of their activities, Deloitte & Touche LLP senior management is responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements.

### **Members of the Deloitte & Touche LLP Board of Directors**

Nicholas F. Tommasino, CPA, CEO and Chairman

Larry R. Baldwin, CPA

Kathryn M. Benesh, CPA

James Brady, CPA

Eric J. Hesperheide, CPA

Steven P. Johnson, CPA

William J. Kacal, CPA

Jeffrey M. Kottkamp, CPA

Mark Layton, CPA

Christopher G. Lee, CPA

Timothy J. McCarty, CPA

Margaret V. Mulley, CPA

Rick W. Rayson, CPA

Richard H. Rosenbloom, CPA

Owen M. Ryan, CPA

Carlos A. Sabater, CPA

James V. Schnurr, CPA

Stephen C. Van Arsdell, CPA

### **The Deloitte & Touche LLP Senior Leadership Team**

Nicholas F. Tommasino, CEO and Chairman

Kathryn M. Benesh, Quality and Risk  
Management Leader, Advisory Services

James Brady, Global Matters Leader

Rick W. Rayson, Talent Leader

Richard H. Rosenbloom, Operations Leader

Owen M. Ryan, Advisory Services Leader

Carlos A. Sabater, Attest Leader

Stephen C. Van Arsdell, Professional Practice and

Attest Quality Leader

# Ethics, Independence and Quality Control

One of the most important responsibilities of the senior management of Deloitte LLP and its four primary subsidiaries is to set a tone at the top that emphasizes our commitment to the highest levels of ethical behavior and quality. The CEO of Deloitte LLP and the members of the senior management teams are ultimately responsible for building an internal culture based on the recognition that ethics and quality are fundamental in performing audits and other professional services, and are essential to the reputation of all the Deloitte U.S. Entities and the profession as a whole. Quality is at the heart of our organization-wide commitment to client service excellence and continuous improvement. That commitment, across all our service lines, is based on four components:

- A technically and professionally qualified and effectively led team
- Responsiveness, timeliness and straight talk on difficult issues
- An in-depth understanding of the client's business and environment
- Strong knowledge of the industry in which the client operates

Consistent with these standards, quality is a pervasive theme in senior management communications, and the CEO recently authored a publication discussing key characteristics of quality, titled "10 Things About Quality".

To further support this dedication to quality and integrity throughout all the Deloitte U.S. Entities, Deloitte LLP has established a comprehensive quality control framework, outlined in the accompanying diagram. This framework comprises leadership responsibilities, ethical principles,

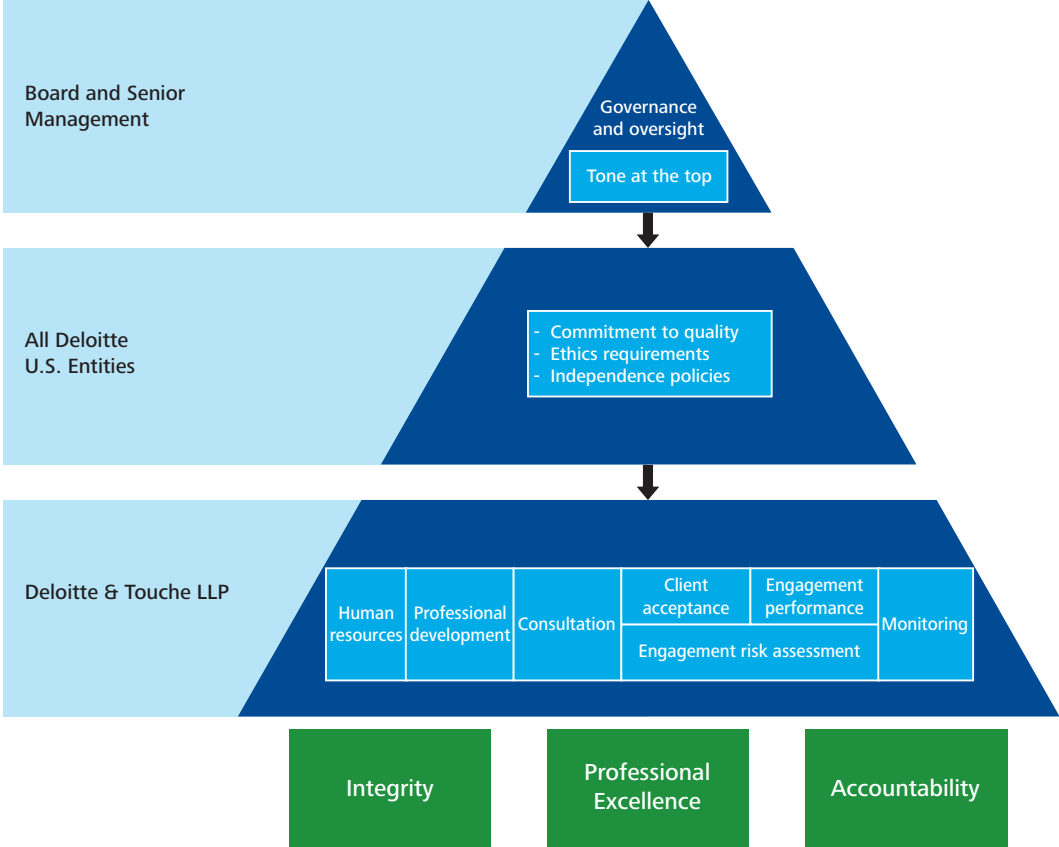
and independence policies applicable across our entire organization, as well as quality control measures specifically relevant to the different services that we provide. The quality control framework is designed to take into consideration our professional responsibilities, as well as the risks we face.

Deloitte & Touche LLP has instituted additional quality control policies and systems that apply specifically to the U.S. accounting and auditing practice and reflect the professional standards, laws and regulations relevant to U.S. public company auditing firms, as established by the PCAOB, the Securities and Exchange Commission (SEC), the AICPA, state governments and others. These policies and systems, described in a later section, focus on the key components of the delivery of high-quality audit services, including the hiring and development of staff, the acceptance and continuance of clients, the performance of the audit engagement, and monitoring. They are designed to enable Deloitte & Touche LLP to deliver high-quality auditing services and to comply with applicable professional standards and regulatory and legal requirements.

Accountability is a critical element of the quality control system, and it is directly related to senior management's commitment to quality. Monitoring processes, both internal and external, focus on maintaining compliance with ethical and professional standards at all levels, including requirements applicable to individual professionals, engagements, and the organization overall.

The following diagram summarizes the key components of the quality control systems of Deloitte LLP and Deloitte & Touche LLP.

**Deloitte U.S. Entities – Quality Control Framework**



- Commitment to Quality
- Ethics Requirements and Compliance
- Independence Policies

### Commitment to Quality

The chief quality officer of Deloitte LLP, a senior partner reporting directly to the CEO, has primary responsibility for the focus on quality throughout all of the Deloitte U.S. Entities. In particular, the chief quality officer's responsibilities include risk management, ethics and compliance, independence, and privacy. The chief quality officer works closely with the general counsel of Deloitte LLP and with the deputy CEO – regulatory and public policy, who monitors the regulatory environment in which the Deloitte U.S. Entities practice and coordinates overall relations with regulatory groups.

Each of Deloitte & Touche LLP, Deloitte Tax LLP, Deloitte Financial Advisory Services LLP and Deloitte Consulting LLP also has designated a lead quality partner/principal. They are responsible for developing and implementing quality control policies and procedures that address the specific quality considerations that face each individual business unit.

### Ethics Requirements and Compliance

All partners/principals and professional staff of the Deloitte U.S. Entities are expected to adhere to all applicable provisions of the AICPA Code of Professional Conduct, as well as all applicable ethics and conduct requirements of the PCAOB and the state boards of accountancy. In addition, a separate but substantially identical version of our Code of Ethics and Professional Conduct (the Code) has been adopted by each of the Deloitte U.S. Entities. [The Code](#) is electronically available to all personnel and provides guidance regarding appropriate standards of conduct in the performance of professional responsibilities.

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"The trust placed in Deloitte LLP and its subsidiaries by clients and the capital markets must never be taken for granted. Ethical behavior is the responsibility of everyone at every level of the organization."

Mike Zychinski, Chief Ethics and Compliance Officer, Deloitte LLP

The Code reflects the expectations for all personnel with regard to ethics and compliance standards, covering responsibilities to the public, to clients, and to each other. The Code is management's primary means of communicating with all personnel as to their professional and ethical responsibilities, and it provides information about the many ethics and compliance resources that are available.

The chief ethics and compliance officer is responsible for the ethics and compliance program of the Deloitte U.S. Entities, which includes training programs that are mandatory for all personnel, as well as an extensive internal communications program to increase and maintain awareness of ethics and compliance matters. The chief ethics and compliance officer also monitors compliance with the Code and oversees the internal disciplinary process.

### Licensing

All professionals of the firms licensed to practice public accounting in various states (Deloitte LLP, Deloitte & Touche LLP, Deloitte Tax LLP, and Deloitte Financial Advisory Services LLP) who have passed the U.S. Uniform CPA Examination and have met the applicable experience and other certification requirements are required to hold active CPA licenses in the state where their office is located, as well as in the state where they were originally licensed, if different. Individuals serving clients in other states may also be required to obtain reciprocal licenses or temporary permits or to give notification to the state boards, depending on the laws of each state or jurisdiction. Professionals are required to enter their licensing information on our intranet site, which creates a database that is monitored and selectively verified by National Office – Ethics and Compliance.

### **Compliance Dashboards**

Individualized online Compliance Dashboards provide professional personnel a central place to track their compliance status for various requirements, such as licensing and continuing professional education.

### **Integrity Helpline**

Our Integrity Helpline enables personnel to seek assistance or report potential ethics violations, on a confidential and anonymous basis, if so desired. The Integrity Helpline is available at any time via either a toll-free telephone number or the internet. Each contact to the Integrity Helpline is reviewed and, when warranted, cases are investigated and appropriate action taken. In calendar 2009, the Integrity Helpline received approximately 490 contacts. Approximately 40% of those contacts were simple inquiries or requests for information. The remaining 60% were individually investigated and action taken in cases (approximately 125 in total) where behavior inconsistent with the Code was identified. Such actions included counseling of individuals, adjustments to assignments or compensation, formal reprimands, or termination/separation from the Deloitte U.S. Entities. In 2009, sixteen people were terminated/separated for issues brought to our attention through the Integrity Helpline.

### **Annual Representations**

All personnel are required to provide an annual ethics and independence representation to confirm that they have read, understood, and complied with all applicable provisions of the Code, as well as the independence policies and guidance described further below. A significant sample of those representations as they relate to partners/principals and other management level professional service personnel is reviewed each year. Effective January 2010, all partners/principals and directors provide representations on a semi-annual basis to further enhance our self-reporting procedures and our commitment to compliance.

### **Independence Policies**

Our independence policies apply to personnel of all the Deloitte U.S. Entities, whether or not they are directly involved in the delivery of audit services. The chief ethics and compliance officer is responsible for monitoring personal independence compliance, including oversight of

the independence systems and taking action on violations of policy. The director of independence has responsibility for oversight and management of the independence policies and related training, including the organization and staffing of the independence consultation function. Both the chief ethics and compliance officer and the director of independence report directly to the chief quality officer of Deloitte LLP. Our internal independence policies are generally more strict than the external regulatory policies with which we are required to comply. We have a culture that fosters compliance with regulatory independence policies. That said, we continue to enhance our independence systems and controls to improve compliance.

The independence systems and controls are organized into the following areas:

1. Tone at the top and communications
2. Written independence policies and independence training
3. Individual compliance and internal monitoring
4. Reporting by personnel of employment negotiations
5. Reporting by personnel of apparent independence violations
6. Disciplinary policies
7. Scope of services for attest clients
8. Business relationships and alliances, commissions, and contingent fees
9. Member firms of DTT

#### **1. Tone at the Top and Communications**

Management sets the tone at the top and instills the importance of the professional values and culture of the Deloitte U.S. Entities by continually reinforcing the importance of compliance with independence standards. Senior management communications regularly highlight the importance of independence to all professional personnel, emphasizing each individual's responsibility to understand the independence requirements, the need to maintain a culture of independence, and the importance of independence in our professional practice. During 2009, a new communications campaign was initiated to focus on the ethical and professional responsibilities of all personnel of the Deloitte U.S. Entities.

## **2. Written Independence Policies and Independence Training**

The effectiveness of our controls relating to independence is derived in large part from written independence policies and guidance that cover all aspects of independence for the Deloitte U.S. Entities, our benefit plans and foundations, all professionals, and certain relatives of professionals. These independence policies and guidance are designed to comply with the International Federation of Accountants' (IFAC) Code of Ethics for Professional Accountants and the SEC, PCAOB, and AICPA independence rules, as well as applicable state and other requirements. Our independence policies and guidance are available electronically to all personnel of the Deloitte U.S. Entities.

We have recently developed a new set of independence training courses that all professional personnel are required to complete. The content of the training courses is focused on our policies, but is tailored to highlight current changes in the profession and the application of the related rules to individual situations that personnel of the Deloitte U.S. Entities may encounter. Most recently, we have introduced a mandatory online training course, "The Power of One," on the importance of individual actions on independence, ethics and compliance.

## **3. Individual Compliance and Internal Monitoring**

The controls related to personal independence of our professionals include integrated systems for maintaining information about entities that are restricted for independence purposes and for tracking and monitoring the investments of applicable personnel.

### *Restricted Entity List - Deloitte Entity Search & Compliance System*

The Deloitte Entity Search & Compliance System (DESC) is a DTT system that contains information regarding certain entities that are "Restricted" for

independence purposes. The DESC System provides professionals with information to assist them in making decisions concerning personal investments and financial relationships. It also assists in determining whether certain types of services may be provided to an entity.

Restricted Entities include all audit clients and affiliates for which independence is required by the rules of the SEC, PCAOB or other regulatory agencies. The accuracy and completeness of the information in the DESC system is maintained by National Office – Independence Compliance based on information provided by audit engagement teams who, with respect to their public company clients, are required to document their review of the accuracy of the list with each quarterly review. Controls over the client acceptance process help to ensure that new engagements are added to the DESC System, as applicable.

### *Tracking & Trading System*

The Tracking & Trading System assists partners/principals and other management level professionals in monitoring compliance with independence requirements related to personal investments and financial relationships. All such individuals are required to use the system to report the names of entities in which they, their spouses, their spousal equivalents, or dependents have a financial interest. These entities are then monitored against the Restricted Entities included in the DESC System.

To assist professionals in maintaining compliance, we have a customized program with selected broker-dealers under which partners/principals and other management level professionals may authorize the broker-dealer to automatically export their individual account holdings into the Tracking & Trading System. Due to the initial positive results of this program on the level of compliance with our independence policies regarding financial interests, we are expanding the network of broker-dealers participating in the program to broaden its impact.



#### *Internal Monitoring*

As noted above, all partners/principals and other management level professionals are required to maintain a current list in the Tracking & Trading System of their investments and the investments of their spouses, their spousal equivalents, and dependents. The Tracking & Trading System automatically flags any investments in Restricted Entities, notifies the affected individual to dispose of them, and follows up if the individual does not confirm in a timely manner that necessary action has been taken. To monitor the accuracy of the account information in the Tracking & Trading System, National Office – Independence Compliance performs audits of selected personnel (partners/principals and other management level personnel). Recognizing the importance of the audit process to our overall compliance and monitoring, we doubled the number of audits conducted in calendar 2009 compared to 2008. Our goal is that every partner/principal will be audited at a minimum every three years, with those in leadership positions audited annually.

#### **4. Reporting by Personnel of Employment Negotiations**

We have written policies and procedures requiring professionals to report promptly if they are offered or seek employment with a client while they are working on an engagement requiring independence for that client. The policies require the immediate removal of the reporting professional from the engagement in these circumstances.

#### **5. Reporting by Personnel of Apparent Independence Violations**

Personnel are required to report apparent independence violations involving themselves or their spouses, spousal equivalents, or dependents when they are identified. Personnel who report such violations are required to identify the corrective actions they have taken or propose to take. National Office - Ethics and Compliance

is informed of apparent independence violations for purposes of determining the appropriateness of the corrective actions, the need to consider disciplinary measures, and the need to consider any actions with respect to the clients involved. The chief ethics and compliance officer periodically reports to senior management on a variety of independence matters, including violations of policy and discipline.

#### **6. Disciplinary Policies**

Our guidelines include policies for actions to be taken against professionals for independence violations. The types of sanctions include written reprimands, reductions of performance ratings, monetary penalties, and termination/separation from the Deloitte U.S. Entities. There has also been one situation involving a flagrant independence violation where we have taken legal action against the individual involved.

#### **7. Scope of Services for Attest Clients**

Our client and engagement acceptance policies for non-audit services require that the partner/principal for each potential engagement complete a process to identify whether the potential client is one for which independence must be maintained.

Because of limitations on the permissible scope of services for attest clients and their affiliates, considerations related to independence are included in the coding of any new engagement accepted by the Deloitte U.S. Entities. If independence from the client is required, the engagement partner/principal must verify, when the engagement begins, that the services to be provided are permissible and have been pre-approved by the audit committee when required. The systems also enable lead client service partners/principals to be aware of all engagements opened for their clients. A new module of the DESC system is now being implemented that will facilitate the process of obtaining approval from the lead client service partner for the performance of services, other than the base audit.

National Office – Independence Compliance annually conducts monitoring reviews of selected engagements for scope-of-service approvals, related documentation, and permissibility of the services.

In cooperation with other U.S. auditing firms, a “family tree” information system is being developed to provide a single master database of information listing all Restricted Entity clients and all of their affiliates. This database is intended to aid in the identification of possible independence issues involved in the provision of non-audit services to an entity.

#### **8. Business Relationships and Alliances, Commissions, and Contingent Fees**

Business relationships and alliances with other entities and nonstandard fee arrangements often present independence complexities. We have specific policies and training programs addressing these arrangements, including conflict and independence checks and requirements for such arrangements to be reviewed and approved by the partner responsible for audit services to the client. Recently, we brought online a business relationship database that facilitates initial as well as annual reviews of all business relationships.

#### **9. Member Firms of DTT**

DTT and each member firm maintain written independence policies. These policies incorporate the independence standards issued by IFAC, as well as the SEC and PCAOB requirements. Individual member firm standards also include any applicable local standards that are more restrictive than DTT policies. Annually, each member firm reports to DTT that the applicable member firm has carried out appropriate procedures to conclude that the member firm and its professionals have complied with DTT’s independence policies.

DTT member firms are subject to a practice review at least once in a three-year period. The matters reviewed include compliance with independence policies, including any applicable SEC, PCAOB or other requirements.

# Quality Controls Specific to Deloitte & Touche LLP

- **Quality Control for Individual Deloitte U.S. Entities**
- **Human Resources**
- **Professional Development**
- **Consultation and the Professional Practice Network**
- **Acceptance and Continuance of Clients**
- **Engagement Risk Assessment**
- **Engagement Performance**
- **Monitoring**

## Quality Control for Individual Deloitte U.S. Entities

Each of the individual Deloitte U.S. Entities has specific quality control policies and processes that are designed to address the unique considerations associated with delivering high quality in the services they provide. These include formal risk management procedures, consultation networks and quality assurance reviews of selected engagements, customized as appropriate for the Audit, Enterprise Risk Services, Tax, Consulting, and Financial Advisory Services businesses. Because Deloitte & Touche LLP is the subsidiary that provides audit and attest services and is registered with the PCAOB as a public company auditing firm, this section focuses on the policies and processes that are specifically designed to enable us to deliver high-quality audits.

## Human Resources

The human resource policies of Deloitte & Touche LLP are designed so that we recruit and develop personnel with the competencies and commitment to ethical principles necessary to execute engagements in accordance with professional and regulatory standards. At the audit partner level, the policies also address professional requirements for partner rotation and related succession planning needs.

## Hiring and Advancement

The Deloitte & Touche LLP hiring and advancement policies and procedures in the auditing practice are focused on delivering high-quality audits. We proactively seek diversity among new employees because we believe that a variety of backgrounds and perspectives enhances audit quality.

A few of the more important policies and procedures are:

- New members of the client service staff are selected from highly qualified graduates who possess the intellectual and personal qualities necessary to achieve and maintain high standards of professional competence.
- Individuals who are employed at advanced levels possess the personal and professional characteristics, academic background, and relevant work experience (or its equivalent) that are expected of current employees in similar positions.
- Offers of employment are contingent upon satisfactory background checks, and documentation is maintained related to the employment process and hiring decisions.
- Performance evaluations are prepared on a timely basis, and each audit professional is regularly counseled as to his or her progress, at a minimum on a semi-annual basis.
- An individual is promoted when he or she meets the established criteria for promotion regarding performance, appropriate experience, and other relevant factors in our human resource competency model.

The performance appraisal process has three components, focused on individual engagement performance, mid-year performance feedback and a year-end performance appraisal. The year-end appraisal is the primary basis for promotions, compensation adjustments, engagement assignments and career planning. Quality is a key consideration in the performance appraisal of audit personnel at all levels. We have recently established specific quality goals for each level. For all professional staff, these goals include the appropriate application of professional skepticism, continuous improvement of technical accounting and auditing skills, and compliance with independence and professional requirements. Additional goals, such as the responsibility to take ownership of the audit process, including delivering superior inspection results, apply for more senior professionals.

### Partner Rotation and Succession Planning

In accordance with the requirements of the SEC, on audits of public companies, the audit engagement partner and the partner performing the engagement quality assurance review may not function in those roles for more than five consecutive years. A “time-out” period of at least five years is required before either partner may return to the audit engagement. Certain other partners who provide audit services must rotate at least every seven years, and are subject to a two-year time-out period.

The rotation requirements make audit client succession planning especially important. Deloitte & Touche LLP has a focused and objective succession planning process, led by the Managing Partner – Development and Succession, to identify and develop future leaders for key lead client service partner roles, as well as for other senior leadership positions. The succession planning process is designed to provide a smooth transfer of responsibilities and knowledge of the client’s business when engagement leaders change. It also considers requirements on each client engagement for in-depth industry knowledge or other specialized background.

### Professional Development

#### Approach to Professional Development

Ongoing professional development is one of our highest priorities. We invest in an extensive professional education program, set rigorous continuing professional education (CPE) requirements for all client service professionals, and monitor compliance with those requirements through an online system. The overall purpose of the professional development program is to help professionals maintain and enhance their professional competence so that they will have the skills and background needed to perform high-quality audits.

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“The delivery of high-quality, relevant, and focused learning programs to all of our professionals is one of the highest priorities of our leadership, and our commitment to learning will remain a cornerstone of our ability to serve our clients and the public interest.”

Margaret Mulley, Chief Learning Officer, Deloitte & Touche LLP

2009 Investment in professional development	Deloitte & Touche LLP	All Deloitte U.S. Entities
Total investment	\$73.1 million	\$185.9 million
Average investment per person	\$6,400	\$4,400
Average reported learning hours per person	93	60

Deloitte & Touche LLP employs a variety of formal learning programs that focus on technical, industry, professional and leadership competencies. In addition, we recognize the importance of reinforcing formal learning programs with personalized, one-on-one guidance so that our professionals understand the reasons for performing specific audit procedures, as well as effective and efficient approaches and methodologies to accomplish them. All professionals, especially partners and senior managers, are encouraged to “live in the field,” so they are available to interact with, train and coach the professional staff. This creates a culture of continuous learning and development and provides our professionals the support and supervision needed to achieve audit quality and to advance in their careers.

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“I’m confident that our continued investment in the development of our people, including our commitment to create a ‘Deloitte University,’ will help signal our intention to be a magnet for the best talent to serve the best clients.”

Barry Salzberg, CEO, Deloitte LLP

A senior partner serves as chief learning officer (CLO) and oversees the development and execution of the Deloitte & Touche LLP CPE curriculum for audit professionals. In addition, a Talent Development Steering Committee of senior partners/principals and other professionals provides guidance and strategic direction for the learning programs and approves the entire learning curriculum by level, from new hire through partner/principal.

The learning programs are developed by a group of professionals under a professional development faculty program. Course materials are revised throughout the year, as new accounting pronouncements, professional standards and regulations require changes or enhancements to existing programs.

#### **Curriculum**

The extensive curriculum covers ethics, independence, core and advanced technical accounting and auditing matters, specialized industry matters, and a variety of business advisory and management programs on topics such as team leadership. Representatives of the National Office Professional Practice Network (discussed below) attend the major learning programs for audit professionals (new hire

through experienced manager) as observers and meet with the CLO and his/her team to discuss their observations and recommendations for improvement.

Each year, the various learning programs in the core curriculum are delivered to professional staff in the summer and fall, generally based upon experience level and practice specialization. The curriculum is delivered in a variety of ways.

Deloitte & Touche LLP partners/principals, directors, and senior managers attend intensive programs that are designed to emphasize technical excellence and audit quality. The programs cover current accounting, auditing, regulatory, and professional ethics and independence issues, including key sources for guidance and consultation resources. They also include practical application exercises on timely accounting and auditing issues, with particular focus on input received in the course of internal inspections and external PCAOB inspections on auditing matters, such as the exercise of professional judgment and the importance of professional skepticism.

Staff and managers attend training designed for their level of experience. Practitioners in particular industries and specialized areas attend additional internal seminars and, when appropriate, outside courses. Learning program formats range from national and regional seminars to web conferences, virtual classes, and online self-study programs. Various forms of communication, such as conference calls, webcasts, and newsletters, are also used to provide information and education to all client service professionals on the latest developments in the profession.

The learning programs incorporate a number of pervasive themes across levels. These themes include audit documentation, the use of specialists, consultation, detection of potential fraud, the importance of professional skepticism and professional judgment, and others, with a foundational theme of achieving audit quality.

All client service professionals of Deloitte & Touche LLP, whether or not they are CPAs, are required to complete at least 20 hours of CPE in each calendar year and at least 120 hours for each three-calendar-year period. Professionals who spend more than 25% of their time on audit or other attest engagements or who have partner, director, or manager responsibility for any such engagement must have at least 40% of their required CPE hours in subjects broadly related to accounting and auditing. An online system monitors each professional's individual CPE requirements (which for CPAs may vary depending on the states in which each individual is licensed) and hours completed for each reporting period; the system flags any deficiencies for follow-up.

#### **Deloitte University**

To further enhance the quality and effectiveness of the learning curriculum for all the Deloitte U.S. Entities, Deloitte LLP recently acquired a 107-acre property near Dallas, Texas, and has begun construction of a state-of-the-art facility dedicated to learning and leadership. This decision represents a significant commitment to and in our people and to enhancing quality and leadership

development. The facility will employ cutting edge, interactive technology and will offer a curriculum that includes simulations, case studies, collaborative learning, and discussion and debate. It is expected to open in 2011. Deloitte University will provide a powerful catalyst for career-long learning and professional growth for all our professionals.

#### **Consultation and the Professional Practice Network**

Quality and risk management considerations are integral to the Deloitte & Touche LLP audit practice. Many of our quality control procedures related to client engagements involve the Professional Practice Network, which includes a full-time team of national consultation partners and other resources, as well as local and regional resources to support the implementation of quality control policies and assist in addressing questions identified by engagement teams. There are more than 150 partners in our Professional Practice Network (approximately 18% of all audit partners), with an average of 23 years of experience each.

The Deloitte & Touche LLP culture encourages consultation as a collaborative mechanism to determine the most appropriate answer to complex questions. The primary

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**“Consultation is integral to the Deloitte & Touche LLP culture. On complex accounting and auditing questions, collaboration is a key means for determining the most appropriate response.”**

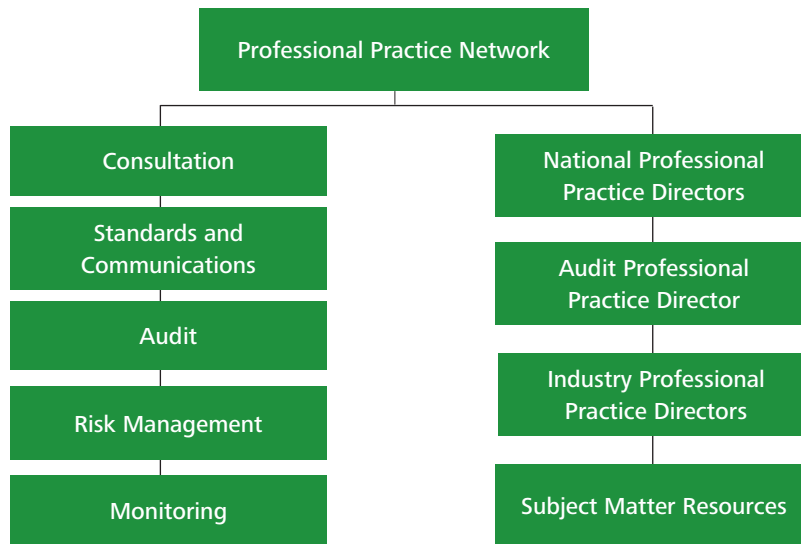
Steve Van Arsdell,  
Deputy Managing Partner – Professional Practice and Audit Quality  
Deloitte & Touche LLP

purpose of the consultation process is to supply the partners and directors responsible for the conduct of audit engagements with advice from individuals with special expertise and experience regarding complex, sensitive, or highly judgmental accounting, auditing or other engagement issues. In some circumstances, consultation pertaining to an audit engagement is required by policy; in most cases, the partner or director responsible for the audit engagement determines whether consultation is appropriate based on the facts and circumstances. Whenever partners and directors need additional information, perspective, or expertise, they are encouraged to seek assistance from National Office accounting and

auditing resources and/or other individuals in the Professional Practice Network with appropriate levels of knowledge, competence, objectivity, and authority.

We continuously seek to improve our consultation process and resources. We have recently revised our policies to simplify the consultation process and to encourage additional consultation, especially on matters involving professional judgment. We have also invested in additional technology to assist the consultation process, and we have increased the resources in our Professional Practice Network. We will continue to increase those resources further as needs require.

The resources of the Professional Practice Network are outlined below:



*Consultation* – The Consultation Department, which is organized into subject matter teams with deep technical expertise, provides consultation to our partners and professionals to achieve the appropriate resolution of auditing questions, as well as accounting issues under both U.S. generally accepted accounting principles (GAAP) and international financial reporting standards (IFRS). The department also provides support to engagement teams and clients on SEC related matters. This support includes pre-issuance reviews of certain documents that include or incorporate our client’s financial statements, consultations on SEC reporting questions, and assistance with communications with the SEC.

*Standards and Communications* – The Standards and Communications Department’s primary functions are to participate in the accounting standard-setting processes, develop accounting implementation guidance, and communicate on financial reporting matters. This department is responsible for developing and distributing the Deloitte & Touche LLP proprietary interpretive guidance on U.S. and international accounting standards.

*Audit* – The Audit Department develops and regularly updates the Deloitte & Touche LLP audit manuals, policies and guidance, including auditing tools, forms, and proprietary materials. In addition, the department provides consultation and issues internal communications related to complex issues on the application of auditing standards and on auditors’ reports.

*Risk Management* – The Risk Management Department focuses on risks to our organization related primarily to client acceptance and continuance.

*Monitoring* – The Monitoring Department monitors quality of service, brand protection, and exposure to litigation, as well as risks related to reputation and regulation, and is responsible for the Internal Inspections Program (discussed below under “Monitoring”).

*National Professional Practice Directors (NPPDs) and Audit Professional Practice Directors (PPDs)* – NPPDs and PPDs are senior technical partners with overall responsibility for supporting the implementation of all audit quality control processes at the regional and individual office level. They consult with engagement teams on a broad range of accounting, auditing and quality assurance matters and interface as needed with other resources in the Professional Practice Network. They are also responsible for determining the quality ratings for all audit partners.

*Industry Professional Practice Directors (IPPDs)* – IPPDs serve as designated industry specialists and review and concur in conclusions on industry-specific accounting or auditing matters.

*Subject Matter Resources (SMRs)* – SMRs are individuals (partners/principals, directors, senior managers, or managers) who maintain subject matter knowledge of particular accounting or auditing topics (such as financial instruments, income taxes, or internal control) and who are assigned as local resources.

As discussed further under “Engagement Performance – Professional Guidance and Communications,” throughout the year, National Office posts in-depth communications on significant issues and developments to the online Technical Library and also hosts regular conference calls, webcasts, and in-person meetings for the Professional Practice Network to update the group on current accounting, auditing, and other practice-related matters.

### **Differences of Opinion**

We encourage all our professionals to assess professional decisions thoroughly. In cases where differences of professional opinion arise either among members of the engagement team or with those in a consultative capacity, we have procedures for the escalation of the issue to more senior levels of authority in order to achieve an appropriate resolution of the matter.



### Acceptance and Continuance of Clients

The clients that Deloitte & Touche LLP chooses to serve have a significant impact on our reputation as a public company auditing firm. As a result, risk management procedures are essential in assessing and considering the companies and individuals who are or may become our clients, defining the engagement terms that are appropriate for the specified services, and identifying and addressing engagement-related risks.

#### Client Acceptance

Our procedures for assessing whether to accept a new audit client relationship are rigorous and require the consideration of multiple factors. The primary factors include, but are not limited to, the following:

- Management's integrity
- The management environment, including
  - Management's commitment to the appropriate application of generally accepted accounting principles
  - Management's commitment to implementing and maintaining effective internal control over financial reporting
- Whether certain risk factors may be present relative to the prospective client entity or the nature of the services we are requested to perform
- Independence and conflict of interest assessments and considerations
- The apparent financial viability of the entity, as of the time of our assessment

The client acceptance process includes the careful evaluation of these and other factors by the recommending partner or director and the applicable PPD, who are required to approve prospective clients in all cases. When the prospective client is a public company or other conditions are present (heightened risk, for example), review and approval by the NPPD and the regional audit leader is required. In addition, the IPPD is required to approve prospective clients in certain specified industry sectors. Engagements assessed as "much greater than normal" in the risk profile are placed in the Risk Management Program (discussed below under "Monitoring").

Background checks, including searches for regulatory sanctions, are performed on those principal officers of a prospective client who are responsible for the financial statement presentation. For prospective clients that report to the SEC or are expected to become subject to SEC reporting, all members of the prospective client's audit committee are also subject to background checks. Searches for past SEC or other regulatory sanctions are performed on other members of the board of directors.

#### Engagement Letters

Our policies require that the terms of each audit engagement be documented on an annual basis via a formal engagement letter signed by an appropriate client officer and the Deloitte & Touche LLP partner or director responsible for the engagement. For companies with SEC reporting responsibilities, the letter is also signed by a representative of the audit committee, or the audit committee approves the engagement by an alternative method.

#### Client Continuance

On an annual basis, each audit client is evaluated by the partner or director responsible for the engagement and the PPD to determine whether to continue the client relationship. The same factors discussed above in the client acceptance process are reviewed to ascertain whether the relationship should continue. Approval by the NPPD and regional audit leader is also required in certain circumstances.

In addition to normal client continuance considerations, if the client is part of the Risk Management Program, a special review partner also is required to concur in the client continuance decision. The overall objective of the client continuance review is to conclude whether Deloitte & Touche LLP should continue to serve these clients and under what conditions.

Client continuance is also evaluated whenever there is a significant adverse change in company management, ownership, financial condition, or the nature of the business. Any differences of opinion regarding acceptance or continuance of a client relationship are resolved through established policies and procedures that require escalation of the decision to more senior partners.

## Engagement Risk Assessment

A key component of both client acceptance/continuance considerations and engagement performance is the assessment of the risk associated with the engagement. The audit engagement risk assessment begins during the client acceptance/continuation process and is designed to continue on an ongoing basis throughout the engagement. The process is designed to evaluate the risks of material financial statement misstatement (including misstatements due to fraud) and to inform decisions about the planning and performance of the audit based on such risks.

The risk assessment process is based on an understanding of the entity and its environment and includes factors such as internal controls, financial statement elements that require significant judgment, prior year adjustments, and major changes in earnings, among others. The risk assessment also considers the results from Deloitte Radar (DDAR), a software tool which uses publicly available data and proprietary quantitative techniques to provide an indication of each public client's susceptibility to business failure and financial statement fraud. The final result of the risk assessment process is an audit approach tailored to the specific risks identified for each client.

## Engagement Performance

We strive to perform consistently high-quality audits based on an uncompromising commitment to professional and technical standards. The quality control mechanisms related to engagement performance build on the results of the risk assessment process and are composed of the following:

- Selection of the Audit Engagement Team
- Audit Approach and Use of Specialists
- Professional Guidance and Communications
- Communications with Audit Committees

### Selection of the Audit Engagement Team

The selection of the engagement team is a key element in the development and execution of an effective and efficient audit.

An audit engagement team is led by an audit partner or director and ordinarily includes one or more of each of the following: audit senior manager, audit manager, senior, audit staff, and internal specialists. For a public

company audit, the engagement leader must be an audit partner. The size and make-up of the engagement team vary depending on the size, nature and complexity of the client entity's operations. The duties and responsibilities associated with each level of engagement personnel are discussed in the Deloitte & Touche LLP Audit Approach Manual ("Audit Approach Manual" or "Manual").

As specified in the Manual, the engagement partner or director has the authority and responsibility for determining the nature, timing, and extent of appropriate auditing procedures in accordance with Deloitte & Touche LLP policies and the applicable auditing standards, as well as for determining that the engagement team collectively has the capabilities and competencies to perform the audit engagement. The engagement partner or director also has the primary responsibility for compliance with Deloitte & Touche LLP policies as to the issuance of the audit report.

### Audit Approach and Use of Specialists

The DTT international audit approach uses as its foundation the international standards on auditing (ISAs) and is customized in the United States to incorporate all elements of the PCAOB standards. The U.S. version of the audit methodology is also used by other DTT member firms when they perform parts of U.S. audits around the world. The Deloitte & Touche LLP audit approach is risk based and includes a risk assessment, as described above, designed to evaluate the risks of material misstatement of the financial statements and to assist in the planning of the audit.

Our audit policies and procedures are designed to comply with professional standards and to provide professional personnel with direction on how to plan, perform, supervise, review, document, and communicate the results of each audit engagement. The international audit approach includes a fully integrated audit methodology, common documentation, and related proprietary audit software. It facilitates communication among member firms and promotes the efficient execution of high-quality audits for multinational clients.

In today's environment of increasingly complex and global business structures, a key factor in delivering a high-quality audit is the ability to access the right experts from across all the Deloitte U.S. Entities. All engagement teams have access to specialists in areas such as control assurance, fair value, tax, actuarial sciences, and fraud, among others.

As discussed previously under “Consultation and the Professional Practice Network,” a network of consultation resources is available to assist in resolving questions or issues that arise in the course of the audit engagement.

#### **Professional Guidance and Communications**

Deloitte & Touche LLP proactively communicates with its professionals with respect to accounting developments and other standard-setting activities impacting the performance of audits.

The Audit Approach Manual is revised as necessary to reflect changes in professional standards or to clarify existing policies and guidance based on implementation experience. The Deloitte & Touche LLP U.S. Accounting Manual is another resource for all audit professionals and is updated weekly. It links all professional accounting guidance to the relevant subject matter and includes approximately 3,000 proprietary interpretations of generally accepted accounting principles and SEC financial reporting matters.

Accounting, auditing, and financial reporting developments that affect the performance of audits are summarized in a weekly publication that is distributed to all audit professionals. Special alerts, distributed by e-mail directly to all audit professionals, communicate significant changes in standards, policies, or other matters directly affecting the audit practice. For example, in calendar 2008, Deloitte & Touche LLP issued more than 30 special alerts and newsletters discussing auditing and financial reporting considerations related to the credit crisis.

These communications, along with other newsletters, are available online as well as in databases for offline use. Policy changes are also covered, as applicable, in professional development courses and webcasts for audit professionals, and in periodic meetings and conference calls for NPPDs, PPDs, IPPDs, and other relevant groups.

#### **Communications with Audit Committees**

In conjunction with the planning and the completion of each public company audit engagement, we communicate with the company’s audit committee on matters related to the scope and results of our audit that are, in our professional judgment, relevant to the committee’s

oversight responsibilities. These communications are designed to assist the audit committee in understanding the audit process and in determining areas requiring its attention. The communications address, among other things, control deficiencies, significant accounting policies, and our judgments regarding the quality (not just the acceptability) of the company’s application of its financial accounting policies.

#### **Monitoring**

Procedures related to monitoring of audit quality can be divided into the following areas:

- Engagement Supervision and Review
- Engagement Quality Assurance Review
- National Office Preissuance Reviews of SEC Documents
- Risk Management Program
- Internal Inspections Program
- Assurance Insight and Analysis
- Leadership Oversight Committee

#### **Engagement Supervision and Review**

The engagement partner or director is responsible for the overall conduct of the audit, including supervision of the engagement team, so that professionals at each successive level receive the guidance and coaching necessary to perform their work effectively. The documentation of all audit work performed on an engagement is reviewed by a member of the engagement team who is more experienced than the initial preparer. Depending on the materiality and complexity of the audit work, it may be reviewed by several team members, including the audit engagement partner or director and the engagement quality assurance reviewer (described below).

#### **Engagement Quality Assurance Review**

In addition to the engagement partner or director, every audit engagement is assigned an Engagement Quality Assurance Review (“EQAR”) reviewer, who is independent of the engagement – ordinarily the PPD or a partner designated by the PPD. An EQAR review consists of a careful and critical consideration of our audit report and the financial statements (or other presentation) that are the subject of our audit report. The EQAR reviewer performs a review of all reports related to the audit prior to issuance and, for all U.S. public companies, also approves the audit plan before significant audit procedures are performed.

### **National Office Preissuance Reviews of SEC Documents**

National Office professionals, with expertise in the rules of the SEC, review documents to be filed with the SEC in connection with the sale or exchange of securities, when such documents include an audit or other attest report of Deloitte & Touche LLP, the consent to including such a report, or a reference to such a report. This review takes place prior to the filing of such documents with the SEC.

### **Risk Management Program**

The Risk Management Program is administered by the National Office. All engagements assessed as “much greater than normal” risk are included in the Risk Management Program. Engagements assessed as “greater than normal” risk are also considered for inclusion in the Risk Management Program. If a client has been placed in the Risk Management Program, this is communicated by the engagement partner or director to those charged with governance of the client entity, typically the audit committee. This communication is ordinarily in writing and covers the following matters: (1) overall assessment of engagement risk, (2) specific risk factors that contributed to the overall risk assessment, and (3) specific procedures designed to respond to engagement risks identified.

A special review partner (in addition to the engagement partner or director and EQAR reviewer) is assigned to all engagements included in the Risk Management Program. This partner provides an additional level of competency and objectivity in the planning and conduct of the audit engagement. In addition, specialists in fraud-related risks are involved in the planning stage of the audits of clients included in the Risk Management Program.

For each client in the Risk Management Program, the engagement team identifies, and the Risk Management Department reviews, the steps and milestones necessary to mitigate the risk factors that led to the company’s initial involvement in the program. Clients who successfully mitigate these risk factors move out of the program; in other circumstances, Deloitte & Touche LLP may decide to terminate the client relationship. Since the Risk Management Program began in its current form in 2005, approximately 47% of the clients that have been

included in the program have moved out of it, and our association with another approximately 43% has ended.

### **Internal Inspections Program**

The Internal Inspections Program is designed to evaluate compliance with Deloitte & Touche LLP’s system of quality control for its accounting and auditing practice through an annual review of the elements of quality control and inspection of the work performed for a sample of audit engagements.

Inspections are led by a full-time group composed of partners and directors with significant prior inspection experience and senior managers identified for their superior technical skills. Other partners, directors, and senior managers with industry or other specialized skills assist as needed.

Each partner and director who supervises audit engagements has an engagement inspected at least every three years. In addition, the selection process is designed to cover a representative cross-section of engagements, while maintaining unpredictability in the selection process. Engagements are reviewed to determine whether Deloitte & Touche LLP policies, generally accepted accounting principles, generally accepted auditing standards, and standards of the PCAOB or other applicable regulatory bodies were followed. The findings are shared with both the engagement team and PPD in the applicable office and reported to regional and national leadership. Corrective action is taken when necessary, and the results of the inspections are used to improve audit quality.

Reviews are also performed across the practice to assess compliance with independence, client acceptance and continuance, recruiting and hiring, assignments and rotation, professional development, evaluation and promotion, and CPA licensing policies and procedures.

To assess the level of understanding of quality control policies and procedures, focus group discussions are conducted with professional staff, managers and senior managers in selected practice offices.

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The Internal Inspections Department is led by experienced, full-time professionals. Through the Internal Inspections Program, each partner and director who supervises audit engagements has an engagement inspected at least every three years.

**Inspection Coverage** – Our audits of the financial statements of U.S. public companies are subject to inspection under our Internal Inspections Program and by the PCAOB (discussed below under “External Inspections of Audit Quality”). During 2009, approximately 9% of the more than 1000 public company audits conducted by Deloitte & Touche LLP were inspected by our internal program, and the PCAOB inspected approximately 7%. In all, the audits inspected in 2009 by our internal program and by the PCAOB encompassed clients with a total market capitalization of approximately \$900 billion, representing more than 35% of the total market capitalization of U.S. public companies audited by Deloitte & Touche LLP, based on market values on the date of the latest audited financial statements through March 2009.

**Inspection Findings** – The types of findings in internal inspections are generally consistent with themes identified by the PCAOB and involve such matters as auditing of management estimates, resolution of errors in accounting or disclosure, and appropriateness of consultation.

Because technical standards are complex and involve professional judgment, we always anticipate some level of comments from inspections. While we have confidence in the many quality control programs we have in place, we recognize that our performance is more consistent in some areas than in others. We are committed to identifying and remediating the root causes of findings and to a process of continuous improvement. Our processes also need to be continuously reassessed and recalibrated to maintain quality in the face of changes in professional standards and the economic environment. We will continue to implement new initiatives to improve quality, which should result in reducing the number and significance of comments.

Additional discussion of our ongoing improvement activities is included in the “Reader’s Guide to This Report” at the beginning of this document.

#### **Assurance Insight and Analysis**

Deloitte & Touche LLP also has a dedicated group that evaluates performance on selected engagements to identify opportunities for systemic improvements. Engagements are selected for review based on certain triggering events such as financial statement restatements and significant findings in internal inspections, peer review or PCAOB inspections. Our processes evaluate the “root causes” of restatements and material departures from auditing standards identified by internal inspection findings, PCAOB written comments, and peer review comments (see “Peer Review – Audits of Non-SEC Issuers” below). These reviews have resulted in various actions to improve audit quality, such as changes to model audit programs, revisions to national training programs, and additional internal communications on specific audit issues. For instance, our root cause analysis identified a need for greater understanding of the components of a well-reasoned and documented professional judgment. As a result, we have developed a framework for using professional judgment, along with a related workshop on the application of professional skepticism and professional judgment that is mandatory for all audit partners and directors.

#### **Leadership Oversight Committee**

In addition to these various monitoring processes, the Leadership Oversight Committee (LOC) provides National Office attention to quality matters involving particular Deloitte & Touche LLP partners/principals and directors. The LOC’s general responsibility is to determine and direct appropriate remedial actions.

Events that will result in the referral of partners/principals or directors to the LOC include, among others, adverse findings from internal inspections, PCAOB inspections, or peer reviews, or regulatory proceedings or civil litigation raising possible audit quality issues. Remedial actions, when appropriate, may range from additional training or oversight to restrictions on deployment or counseling individuals to separate from the Deloitte U.S. Entities.

### **Measuring Audit Quality**

There is general consensus on the paramount importance of audit quality, but less agreement on how to measure it. In response to a recommendation from the Treasury Advisory Committee on the Auditing Profession, the PCAOB has been exploring a variety of possible metrics to evaluate audit quality, such as audit staff experience levels, partner leverage ratios, or numbers of restatements. But so far, no consensus has emerged as to effective metrics to measure audit quality.

### **The UK Audit Quality Framework**

In the United Kingdom, the Financial Reporting Council (FRC) has taken a different approach. Instead of quantitative indicators, the FRC concluded that the most productive avenue was to identify the key drivers that promote audit quality and then to use these drivers to assess the performance of audit firms. In particular, the FRC has outlined five principal drivers of audit quality:

- The culture within an audit firm (characterized by an environment that values, invests in and rewards quality through its tone at the top, its client acceptance standards, its processes for consultation and monitoring, and its appraisal and reward systems)
- The skills and personal qualities of audit partners and staff (including ethical standards and training, experience and supervision)
- The effectiveness of the audit process (including compliance with professional standards and a structured audit methodology)
- The reliability and usefulness of audit reporting (including robust communications with audit committees)
- Factors outside the control of auditors (including strong corporate governance, active audit committees, appropriate limitation of liability and a regulatory environment focused on audit quality drivers)

We believe that the FRC's audit quality framework captures the key factors responsible for audit quality, and its use should significantly enhance the communication and evaluation of audit firms' systems of quality control. To that end, our disclosures throughout this transparency report are designed to address the fundamental elements of the first four audit quality drivers, which are those within the control of audit firms.

### **Audit Quality in This Report**

In particular, this report describes our commitment to quality and integrity, starting at the highest levels of our organization, and the comprehensive framework of policies and procedures that we have established to support that commitment. Our quality framework includes explicit leadership responsibilities for quality, clear ethical standards, detailed independence policies and procedures, major investments in the development of our people, rigorous standards for the acceptance and continuance of clients, and a comprehensive risk-based methodology for the performance of audit engagements, supported by specialized consultation resources. Our Internal Inspections Program examines compliance with our policies and reinforces our commitment to quality, as does our focus on determining and remediating the root cause of identified deficiencies. The direct consideration of quality in our appraisal and compensation systems for both employees and partners/principals further emphasizes the importance of quality to each professional.

# External Inspections of Audit Quality

Deloitte & Touche LLP is committed to the highest standards of audit quality, and our culture is focused on continuous improvement. As part of our ongoing efforts to maintain and improve audit quality, we continually monitor our quality control systems and processes and make changes when we identify improvements that could enhance audit quality.

## **PCAOB Inspection – Public Company Audits Background**

As the designated regulator of the public company auditing profession in the United States, the PCAOB has a central role in promoting audit quality. Deloitte & Touche LLP is supportive of and committed to working with the PCAOB to continue to strengthen trust in the integrity of the independent audit. We believe that the PCAOB's inspection process is an important factor in the achievement of our shared objective of improving audit quality and serving investors and the public interest. Further, although the PCAOB's inspection process is not a component of our system of quality control, it serves to promote audit quality by focusing attention on our compliance with auditing standards and independence requirements.

Annual PCAOB inspections are required for registered public accounting firms, such as ours, that annually perform more than 100 U.S. public company audits. The scope of the inspections includes specific audit and review engagements, quality control procedures, and other testing deemed appropriate by the PCAOB. The PCAOB 2008 inspection report, issued on April 16, 2009, is the most recent report issued by the PCAOB with respect to its inspections of Deloitte & Touche LLP. The 2008 inspection was performed from March through November 2008 and included, among other things, reviews of audits of financial statements for years ending from April 1, 2007, through March 31, 2008. The PCAOB's 2009 inspection included reviews of audits of financial statements for years ending from April 1, 2008 through March 31, 2009. The report on that inspection has not yet been issued.

## **Outcome of 2008 and 2007 PCAOB Inspections**

The PCAOB report on each inspection includes a public and a non-public portion. The public portion of the inspection report includes an overview of the inspection procedures and relevant observations on certain of the engagements subjected to inspection in that year. The full text of the public portion of the 2008 PCAOB Report and our related comments are available at [http://www.pcaobus.org/Inspections/Public\\_Reports/2009/Deloitte\\_Touche.pdf](http://www.pcaobus.org/Inspections/Public_Reports/2009/Deloitte_Touche.pdf).

The PCAOB considers inspection findings included in the public portion of the inspection reports to represent audit deficiencies that may affect the firm's ability to support its previously expressed audit opinion. For these deficiencies, as well as for any less significant deficiencies identified in the inspection process, the inspected firm must assess whether the deficiencies affect its previously expressed audit opinions. The firm must also determine which, if any, corrective actions need to be taken. These corrective actions may involve additional audit documentation, performance of additional audit procedures, or even reissuance of an audit report.

The deficiencies identified in the public portions of the 2008 PCAOB Report and the 2007 PCAOB inspection report, issued on May 19, 2008, related primarily to the following types of items:

- In 2007, application of generally accepted accounting principles and generally accepted auditing standards pertaining to hedge accounting for interest rate swaps, including the failure to identify two related departures from generally accepted accounting principles
- In 2007 and 2008, application of generally accepted accounting principles and generally accepted auditing standards pertaining to the accounting for deferred tax assets, including in one case a failure to identify a departure from generally accepted accounting principles
- In 2008, failure to identify a material weakness in an issuer's internal controls over its allowance for doubtful accounts



- In 2007 and 2008, adequacy of audit procedures and documentation related to such areas as asset and liability valuation and the testing of data and assumptions underlying management estimates

The non-public portion of each inspection report includes the PCAOB's observations on audit performance and on the firm's system of quality control, including comments on areas in which the PCAOB believes Deloitte & Touche LLP should improve. The PCAOB's reviews associated with the non-public portions of the 2008 PCAOB Report and the 2007 PCAOB Report addressed audit performance and also considered the five areas listed below that can influence audit quality.

- Management structure and processes, including tone at the top
- Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions
- Policies and procedures for considering and addressing the risks involved in accepting and retaining clients;
- Processes related to the use of audit work performed by DTT member firms on the non-U.S. operations of U.S. issuer audit clients
- Processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance and processes for responding to weaknesses in quality control

The PCAOB's specific observations on audit performance in the non-public portions of the inspection reports were generally consistent with the results of our internal inspections discussed earlier under "Internal Inspections Program – Inspection Findings" and included concerns and

criticisms related to matters such as the level of challenge and testing of management estimates, the testing of data provided to specialists, and the appropriateness of testing and reliance on controls. Additionally, there were general comments and observations relating to consistency in application of our audit methodology, supervision and review, professional skepticism, consultation guidelines, enforcement of policies, and training.

#### ***Response to Inspection Results***

As required by professional standards, we have carefully considered the matters identified in the public portion of the PCAOB Reports for each of the nine issuer audits described in the 2007 PCAOB Report and each of the seven issuer audits described in the 2008 Report. In two instances, the financial statements were restated; in one case our report on internal control over financial reporting was amended; and in some other situations, we performed additional procedures or supplemented our audit documentation.

As has been the case with respect to the PCAOB's previous inspection reports, Deloitte & Touche LLP is giving thorough consideration to the comments and concerns raised in the 2008 PCAOB Report to assess the extent to which we have already initiated actions to address those concerns and consider what additional actions may be necessary. As discussed above under the "Internal Inspections Program," we have confidence in the many quality control programs we have in place, and very few inspection findings result in restatements of financial statements. Nonetheless, we are not satisfied with our inspection results, and we continue to work to improve our performance.



We have implemented enhancements to address the matters raised in the inspection findings, including programs already underway that are designed to:

- Enhance our risk-based audit methodology by allowing implementation of the new global audit methodology one year earlier than originally planned.
- Strengthen professional skepticism skills through mandatory professional skepticism workshops for audit partners and directors.
- Advance research capabilities through the launch of an enhanced Technical Library.
- Improve the effectiveness of consultations by implementing a streamlined consultation policy that encourages more frequent and higher quality consultations.
- Enhance engagement review procedures and engagement quality assurance reviews through new learning programs for reviewers.
- Accelerate performance improvement through a new real-time feedback system to identify trends on issues encountered by our engagement teams.
- Provide new tools to assess the effectiveness of learning programs.

We will monitor the results of these programs and will continue to implement new quality initiatives that we believe will improve the results of the various inspection processes, in terms of both the number and the significance of the comments. Because of the lead time for the effect of corrective action to be reflected in audit performance and the fact that the 2009 inspections reviewed audits performed for 2008 year-ends, we expect that the level of findings in the 2009 inspections will continue to be higher than we would like.

The Sarbanes-Oxley Act of 2002 requires that the PCAOB observations on the firm's quality control systems not be made public, provided that the firm addresses those observations to the PCAOB's satisfaction within 12 months of the date of the inspection report. Our responses to the PCAOB inspection reports for inspection years 2006 and prior have been accepted by the PCAOB, and the PCAOB therefore has not disclosed the observations in the non-public portion of the inspection reports. The PCAOB's consideration of our response to the 2007 Report (issued on May 19, 2008) is still ongoing.

#### **Peer Review – Audits of Non-SEC Issuers**

In addition to the inspection performed by the PCAOB, professional requirements of the AICPA and many states require that CPA firms have a peer review once every three years of their accounting and auditing practices related to non-SEC issuers. The peer review is conducted by an independent reviewer, generally another licensed CPA firm. Peer reviews include both reviews of a firm's system of quality control and reviews focused on selected engagements.

Deloitte & Touche LLP's last peer review was performed in 2008 by another large CPA firm. The peer reviewer issued a peer review report with a rating of pass. (Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*.) A peer review report with a rating of pass means that the system of quality control has been designed to meet the requirements of the quality control standards for an accounting and auditing practice and the system was complied with during the peer review year to provide Deloitte & Touche LLP with reasonable assurance of performing and reporting in conformity with applicable professional standards.

### Quality Assurance Reviews – DTT Member Firms

Each DTT member firm has a quality assurance review, known as a practice review, of its auditing practice at least every three years. These reviews are designed to assess the performance of every audit partner at least once in each three-year period and are subject to guidance and oversight by a partner from another DTT member firm. The engagements selected for review include national engagements and inbound/outbound transnational engagements. Many of the larger member firms perform these reviews annually. In addition, most member firms' auditing practices are subject to one or more periodic external reviews conducted by professional or regulatory bodies within their countries.

### Regulation and Audit Quality – The History

In the 75 years since the passage of the U.S. federal securities laws, different regimes for inspecting or examining audit quality under several regulatory models have provided investors and the public some level of information as to performance of the audit firms, as follows:

- 1934 – 1977: Public company auditors were accountable to the Securities and Exchange Commission (SEC) which has authority to bar auditors deemed substandard from “practicing before the Commission.” This authority continues today, but during these years there was no formal program to monitor audit quality.
- 1977 – 2002: A self-regulatory structure was in place, in the form of the AICPA’s SEC Practice Section. Firm membership in the Section brought requirements that included a triennial peer review of audit work by another Section member firm and public reporting of the results. The peer review program was overseen by the Public Oversight Board, which consisted of prominent members from the business and government communities.
- 2002 – present: The Sarbanes-Oxley Act of 2002 established direct regulation of the profession by the PCAOB. For the first time, firms that audit public companies are registered with the PCAOB, which is empowered to grant or deny firms and individual CPAs the ability to audit public companies. The largest firms have their work inspected annually by the PCAOB, which publishes a report of its findings.

# The U.S. Litigation Environment

Similar to the experience of the public company auditing profession as a whole, we incur significant litigation costs. On average, for the large U.S. auditing firms, litigation-related costs are more than 15 percent of the audit-related revenue. That is 40 times higher than the average for all businesses, according to the 2006 Risk and Insurance Management Society Benchmark Survey.

Some argue that the potential for legal claims against public company audit firms enhances audit quality. Others maintain that the extent of litigation is a reasonable measure of audit quality, and that there is an inverse relationship between the number of claims and the quality of a firm's audits. We do not agree with either of these statements.

First, audit partners are professionals and care deeply about the quality of their work, which is the basis for their firms' reputations and their livelihoods. In addition, we now have a very effective regulatory framework for public company auditors, with significant oversight and enforcement powers. These factors contribute to high-quality audits far more than legal claims.

On the second point, many factors, such as trends in the economy and the capital markets or in specific industries, that have nothing to do with audit quality drive the number of litigation claims and litigation settlements. Audit firms are subject to claims by a wide variety of plaintiffs and are subject to different standards in state and federal courts. Audit firms also face concentrated risk from class action lawsuits, which subject firms to the risk of an adverse legal judgment, potentially up to the entire amount of a client's market capitalization, with no regard to the amount of the related audit fee. Based on data prepared for the Treasury Advisory Committee on the Auditing Profession, the six largest audit firms had 27 pending claims of more than \$1 billion as

of March 2008, all of them arising from public company audits. It would take only one judgment of that magnitude to seriously weaken a firm, and because of the magnitude of damage claims, an audit firm may not be able to afford the risk of a loss in court, even when the firm is confident of the quality of its audit and legal position.

We believe that we can sustain our operations and deliver high-quality audits with the current level of continuing litigation cost. These costs consist principally of negotiated settlements of asserted claims and legal fees. We also agree that professional liability is appropriate, and our primary concern is not the historic average level of litigation costs; rather, it is the very real possibility of a catastrophic loss due to unlimited liability. So long as potential catastrophic losses exist, the threat to the economic sustainability of a large firm puts the capital markets and investors at risk. If one of the largest firms were to fail, it is not clear that there is sufficient capacity to transition their audits to other firms.

# Earnings of Partners/Principals

The compensation practices of the Deloitte U.S. Entities are designed to comply with applicable independence requirements; to emphasize the shared values of quality, integrity, and technical excellence; and to assess the characteristics and skills outlined in our human resources competency model. For partners/principals, the system is an earnings allocation process. Typically, each partner/principal is allocated interests in the applicable partnership, known as units, under recommended guidelines related to their level, role in the Deloitte U.S. Entities, responsibilities and overall performance appraisal, which is tied to a goal-setting process.

At the start of the fiscal year, partners/principals set goals based on expectations for their level, role and organization-wide strategic objectives. Goals are in areas such as quality, practice management and client service, leadership, community involvement and eminence, personal development, and talent. Goals are subject to review and input by leadership.

At the end of the fiscal year, partners/principals receive appraisal ratings based on their actual performance. Overall year-end ratings are subject to oversight, review and concurrence by business (function-specific subsidiary), cross-functional, regional, industry, quality and risk management, and human resource leadership teams, a subcommittee of the Board of Deloitte LLP and the Office of the CEO.

Partners/principals in Deloitte & Touche LLP and Deloitte Tax LLP also receive a specific quality rating that reflects performance in relation to specific quality attributes. These ratings are a critical component of our overarching commitment to quality, integrity, and continuous improvement throughout our practice. Each partner/principal is carefully evaluated on an ongoing basis, and is rated annually on a scale of 1 (highest) to 5, taking into consideration the conduct of engagements as well as, where applicable, the results of internal and external

inspections. Quality ratings are closely correlated with overall ratings and are a key consideration in deployment and in the peer ranking and unit/earnings allocation process described below. For fiscal years 2009 and 2008, the average quality rating for all audit partners was a "2." A remedial plan, with limitations on assignments, is required for any audit partner below the "clearly competent" rating of "3."

During the performance assessment process, partners/principals are peered into five successive groups based on specific criteria, which include guidelines around quality, client service, practice management, eminence, teamwork and people management. Generally speaking, the greater the responsibility a partner/principal has, the higher the peer group placement. Peering establishes a structure for the unit/earnings allocation process, as it equates levels of role, responsibility and performance with levels of earnings. Unit allocations are subject to oversight and review at various levels. Final review for all audit partners is conducted first by the Deloitte & Touche LLP Board of Directors and then by the Deloitte LLP Board.

In addition, to ensure that audit partners focus on their primary responsibility to provide audit services of the highest quality, the policies of the Deloitte U.S. Entities, which are consistent with U.S. law, forbid them from receiving compensation, bonuses, or other direct financial incentives for selling products or services, other than audit, review, or assurance-related services, to their audit clients. Prior to the final overall approval of the annual earnings allocation process by the Deloitte LLP Board, each partner responsible for the rating, peering and unit allocation recommendation for an audit partner certifies that no consideration was given to any such other services to an audit client.

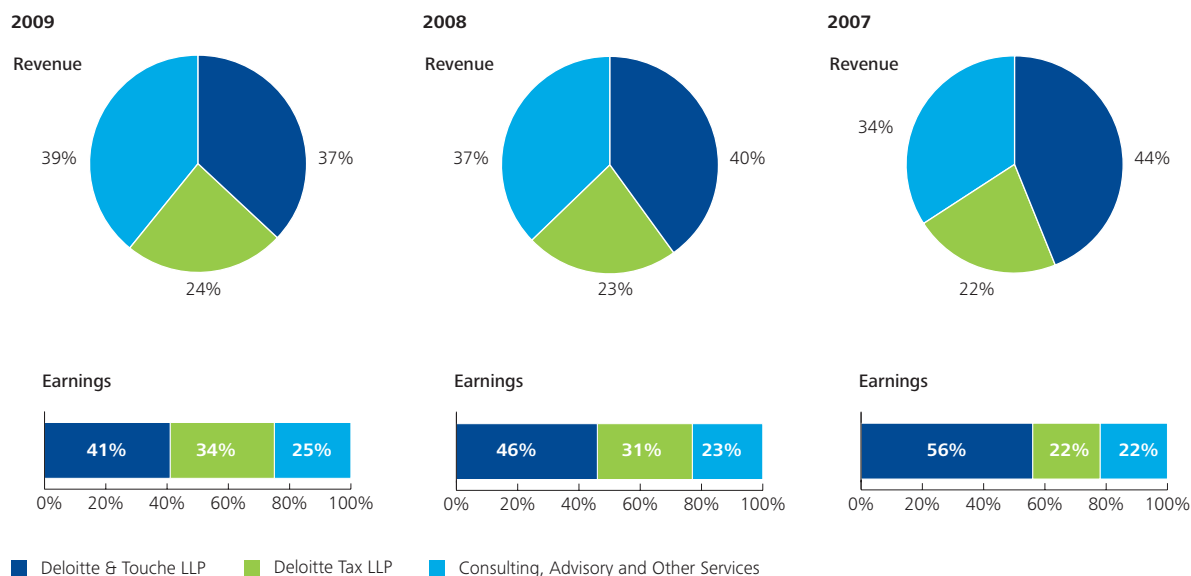
At the end of the fiscal year, units are valued based on the performance of the Deloitte U.S. Entities. The earnings of partners/principals are determined by their number of units at the applicable unit value.

# Financial and Other Information

The following table summarizes the revenues and other statistics of the Deloitte U.S. Entities:

## Deloitte U.S. Entities: Revenue and Profitability

Fiscal Year Ended May 31	2009	2008	2007
Revenue (US \$ in Millions)	\$10,722	\$11,042	\$9,856



	2009	2008	2007
Employee Compensation & Benefits as a Percentage of Revenue	43%	41%	40%

### Capital Structure

The majority of our capital structure consists of capital contributed by our partners and principals. In addition to this paid-in partner/principal capital, a portion of our capital structure consists of long-term privately placed debt. Such long term debt is rated "1" by the National Association of Insurance Commissioners, which is comparable to "A" rated corporate debt.

**Note:** The accounting records of the Deloitte U.S. Entities are prepared on the accrual basis and in a manner that management uses to operate the businesses. The financial information shown above is not prepared in accordance with generally accepted accounting principles in the United States. The revenue amounts shown include reimbursable expenses billed to clients. Earnings for individual entities include direct costs and expenses, as well as allocated amounts of shared costs and expenses.

## Deloitte U.S. Entities: Professional Headcount and Other Information

2009	All Deloitte U.S. Entities	Deloitte & Touche LLP
<b>Personnel</b>		
Partners/Principals/Directors	4,246	1,538
Senior Managers	4,187	1,405
Managers	5,511	1,679
Senior Staff	9,328	3,323
Staff	10,333	3,469
<b>Client Service Professionals</b>	33,605	11,414
Administrative Professionals	8,762	
<b>Total Personnel</b>	42,367	
<b>Other Statistics</b>		
Personnel Mix – Percent Women	44%	41%
– Percent Minorities	32%	28%
Women Partners/Principals/Directors	1,038	350
Minority Partners/Principals/Directors	430	141
Interns	2,319	1,169
Global Deployment – Outbound	315	130
– Inbound	167	107
Number of CPAs	8,895	5,122
Number of Cities	90	

# List of Public Company Audit Clients

A list of the U.S. public company issuers for which Deloitte & Touche LLP was the auditor of record as of December 1, 2009, may be found on our website in the [Investor Confidence](#) section.

**About Deloitte**

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