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

**PCAOB Rulemaking Docket Matter No. 038**  
***Proposed Auditing Standard – Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards***

Dear Ms. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2013-004, *Proposed Auditing Standard – Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards* (the Release).

**Overview**

As noted in our original comment letter dated May 30, 2012, we support the Board's initiative to improve the independent auditor's evaluation of a company's identification of, accounting for, and disclosure of its relationships and transactions with related parties by proposing a new auditing standard that would replace the Board's interim auditing standard, AU sec. 334, *Related Parties*. We also support the Board's initiative to improve audit quality through its proposed amendments that are intended to enhance the auditor's identification and evaluation of a company's significant unusual transactions and to improve the auditor's understanding of a company's financial relationships and transactions with its executive officers. We continue to believe that these areas can pose significant risks of material misstatement of the financial statements and deserve the Board's attention.

**Reproposed Standard, *Related Parties***

We believe that the revisions that the PCAOB has made when drafting the reproposed auditing standard, *Related Parties* (the Reproposed Standard), allow for greater use of auditor judgment, and result in the Reproposed Standard being better aligned with the PCAOB's risk assessment standards. However, we believe that there are certain prescriptive requirements in the Reproposed Standard that limit the auditor's ability to exercise professional judgment in designing audit procedures responsive to assessed risks. Included below are recommended changes that we believe would allow for an appropriate level of auditor judgment, as well as other comments that we have concerning the Reproposed Standard, all of which we believe will promote the Board's goal of enhancing audit quality.

*Evaluating Whether the Company Has Properly Identified Its Related Parties and Relationships and Transactions with Related Parties*

The first sentence to paragraph 14 of the Reproposed Standard states that the “auditor should evaluate whether the company has properly identified its related parties and relationships and transactions with related parties.” Footnote 14 to that sentence indicates that the aforementioned evaluation requires the auditor to perform procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company. The second sentence of paragraph 14 then goes on to indicate that “[i]n making that evaluation, the auditor should take into account the information gathered during the audit.” It is unclear to us whether the evaluation that is described in the first sentence of paragraph 14 can be fulfilled solely through the auditor considering information gathered during the audit, or whether the auditor would need to design specific audit procedures to perform such evaluation, while also considering other information gathered during the audit. We recommend that the Board make appropriate revisions to paragraph 14 to clarify its intent as it relates to the second sentence of that paragraph.

The Note in paragraph 14 of the Reproposed Standard states that “Appendix A describes examples of information and sources of information that could indicate that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist.” As noted on page A4-39 of the Release, it is not the Board’s intent for the auditor to be required to perform procedures with respect to each source of information referenced in Appendix A. In order to explicitly state the Board’s intent within the Reproposed Standard, we recommend that a sentence be added to the Note that indicates that the auditor is not required to perform procedures with respect to each source of information referenced in Appendix A.

Paragraph 16 of the Reproposed Standard requires the auditor to perform certain procedures if the auditor determines that a related party or relationship or transaction with a related party exists that was previously undisclosed to the auditor. The procedures described in items (a) through (c) of paragraph 16 are required to be performed in all cases if a previously undisclosed related party or relationship or transaction with a related party exists. Depending on the facts and circumstances, we believe that there could be related party transactions that are noted by the auditor that previously were undisclosed to the auditor that do not warrant the performance of the procedures in items (a) through (c), based on the auditor’s risk assessment. We recommend that the Board consider implementing a materiality screen (e.g., “clearly trivial,” as used in PCAOB Auditing Standard No. 14, *Evaluating Audit Results*) for related party transactions in items (a) through (c) of paragraph 16, in order to remove the need to perform those procedures on such transactions.

*Communications with the Audit Committee*

Paragraph 19 of the Reproposed Standard addresses communications with the audit committee, relative to related parties or relationships or transactions with related parties. Items (b), (c), and (e) of paragraph 19 contain a materiality threshold, in the sense that such communications are only required for significant related party transactions. We note that no such materiality threshold is present in item (a). We recommend that the word “significant” be inserted before the

first occurrence of “related parties” in item (a) of paragraph 19 in order to conform the level of communication with that in items (b), (c), and (e).

*Appendix A – Examples of Information and Sources of Information That Could Indicate That Related Parties or Relationships or Transactions with Related Parties Previously Undisclosed to the Auditor Might Exist*

Appendix A of the Reproposed Standard includes examples of information and sources of information that could indicate that related parties or relationships or transactions with related parties that were previously undisclosed to the auditor might exist. We recommend that the third bullet (“Bill and hold” type transactions) be removed from paragraph A2 of Appendix A. While we acknowledge that bill and hold transactions may be a vehicle for fraudulent financial reporting, we do not believe such transactions are indicative that a related party or relationship or transaction with a related party might exist. In addition, we recommend that the 12<sup>th</sup> bullet (Significant contracts renegotiated by the company during the period under audit) be removed from paragraph A3 of Appendix A, as we do not believe that such source would normally assist an auditor in identifying a related party or relationship or transaction with a related party.

**Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions**

We acknowledge that the tenth bullet to paragraph 55 of AU sec. 722, *Interim Financial Information*, currently uses the word “infrequently,” however we would recommend that the concept of infrequent transactions be removed from the proposed revision to this bullet and inserted as its own bullet, in order to align the revisions that are being made elsewhere throughout the Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions related to the phrase “significant unusual transactions.”

**Other Proposed Amendments to PCAOB Auditing Standards**

The Release proposes an amendment to Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, to add a sixth bullet to paragraph 11 to state that the auditor should consider “[o]btaining an understanding of established policies and procedures regarding the authorization and approval of executive officer expense reimbursements.” On page A4-85 of the Release, it states that “obtaining an understanding of the company’s policies and procedures would not require the auditor to examine all of a company’s executive officer reimbursements” (emphasis added). Since the requirement relates to obtaining an understanding, we believe that it may not be necessary to examine any of a company’s executive officer reimbursements, depending on the facts and circumstances that affect the auditor’s risk assessment. Therefore, in order to alleviate any potential confusion through the use of the word “all,” we recommend that the PCAOB make appropriate changes in the final version of the Release, if comparable language as that found on page A4-85 of the Release is brought forward.

### Scalability and Scope

We believe that the amount of incremental audit effort that will be required pursuant to the Release will have a direct relationship to the number, nature, and complexity of a company's related parties and relationships and transactions, its significant unusual transactions, its financial relationships and transactions with executive officers, and the processes and controls a company has implemented to identify those matters and evaluate their effect on the financial statements. In addition, in response to Question 41 in the Release, our intention would be to perform the same procedures for an audit of an emerging growth company (EGC), regardless of the applicability to audits of EGCs of the Reproposed Standard and amendments, as the cost to develop and maintain two separate methodologies and the related training would be cost-prohibitive to do otherwise.

### Effective Date

Many of the requirements of the Release impact the planning and risk assessment aspects of an audit, and therefore it is critical that sufficient lead time be provided to audit firms so that they can incorporate the required changes arising from a final standard and amendments into their audit policies, methodologies, and tools, as well as preparing and delivering training to their audit personnel on such changes, prior to the required changes becoming effective. The Board currently has proposed that the Reproposed Standard and amendments would be effective, subject to approval by the Securities and Exchange Commission (SEC), for audits of financial statements for fiscal years beginning on or after December 15, 2013. In order to provide adequate lead time, as described above, we believe that it would be necessary for the SEC to approve the PCAOB's final standard and amendments by no later than October 31, 2013. If it appears that the SEC will not approve the final standard and amendments by such date, we recommend that the PCAOB defer the effective date by one year. In any case, we further recommend that the PCAOB align the effective date for the amendments to AU sec. 722, such that those amendments become effective in the first interim period following the first annual period that the other changes are effective (e.g., for the quarter ending March 31, 2015 for a company with a calendar year end, assuming that the final standard and amendments are effective for the year ending December 31, 2014).

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We appreciate the Board's careful consideration of our comments. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Sam Ranzilla, (212) 909-5837, [sranzilla@kpmg.com](mailto:sranzilla@kpmg.com), or George Herrmann, (212) 909-5779, [gherrmann@kpmg.com](mailto:gherrmann@kpmg.com).

Very truly yours,

**KPMG LLP**

cc:

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