



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

July 3, 2013

**RE: 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 Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *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 "reproposed standard," "reproposed amendments," or "reproposal"). Overall, we support the Board's reproposal and believe it will strengthen the auditor's ability to identify, assess, and respond to risks of material misstatement arising from relationships and transactions with related parties, significant unusual transactions, and financial relationships and transactions with executive officers. We appreciate the Board's responsiveness in considering and providing feedback on comments received on the original proposal. We believe the reproposed standard has been improved by greater alignment with the Board's risk assessment standards. We also believe the suggestions we offer below for your consideration will further improve the reproposal.

In the remainder of our letter, we have organized our suggestions about the reproposal into the following topical areas:

- Evaluating whether the company has properly identified its related parties and relationships and transactions with related parties
- Communications with the audit committee
- Reproposed amendments to AU 722, "Interim Financial Information"
- Economic considerations
- Effective date

***Evaluating whether the company has properly identified its related parties and relationships and transactions with related parties***

Paragraph 14 of the reproposed standard requires the auditor to evaluate whether the company has properly identified its related parties and relationships and transactions with related parties. In making that evaluation, the auditor should take into account the information gathered during the audit. A note to paragraph 14 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." Finally, footnote 14 to paragraph 14 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. We agree the auditor should perform procedures to test accuracy and completeness; however, the expected audit effort and extent of procedures to be completed are unclear, which may result in inconsistent practices among auditors.

As a result, we believe paragraph 14 should clarify the auditor's responsibility with respect to Appendix A. We acknowledge (as does the Board on pages 40 and 44 of Appendix 4) that other auditing standards might require the auditor to examine certain items listed in Appendix A including, for example, reading confirmation responses and responses to inquiries of the company's lawyers, and in those circumstances, the auditor should take that information into account in evaluating whether the company has properly identified its related parties and relationships and transactions with related parties. We believe the note in paragraph 14 discussing Appendix A, as well as the lead in to Appendix A, should be clarified to state that the auditor should perform procedures on the information to evaluate whether the company has properly identified its related parties and relationships and transactions with related parties when the auditor is already required to perform audit procedures on the information or sources of information by other auditing standards or through the performance of auditing procedures in other areas. We believe this would clarify the Board's intent as discussed in Appendix 4.

Paragraph 16 requires certain procedures to be performed if the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists. Step (a) requires the auditor to "inquire of management regarding the existence of the related party or relationship or transaction with a related party previously undisclosed to the auditor and the possible existence of other transactions with the related party previously undisclosed to the auditor." If, after performing this step, the auditor concludes that a related party transaction that was previously undisclosed to the auditor is clearly trivial, we believe that the auditor should not be required to perform steps (b)-(f), and we suggest that the Board revise paragraph 16 accordingly.

#### ***Communications with the audit committee***

Paragraph 19 of the repropoed standard includes a list of matters that the auditor is required to communicate to the audit committee regarding the company's relationships and transactions with related parties. Item (a) in the list is "the identification of related parties or relationships or transactions with related parties that were previously undisclosed to the auditor." We believe paragraph 19(a) should be revised to communicate "the identification of ***significant*** related parties or relationships or transactions with related parties that were previously undisclosed to the auditor." We agree with the Board's removal in the repropoed standard of the requirement from the original proposal that each related party transaction previously undisclosed to the auditor by management be treated as a significant risk, and we believe this proposed change to paragraph 19(a) would be consistent. Furthermore, adding "significant" to paragraph 19(a) would align it better with other items required by paragraph 19 to be communicated to the audit committee.

#### ***Proposed amendment to AU 722, "Interim Financial Information"***

The repropoed amendments to AU 722, "Interim Financial Information," include the addition of the following language, shown below in boldface italics, to item 2.a. in the second illustrative representation letter for a review of interim financial information:

2. We have made available to you—



- a. All financial records and related data, ***including the names of all related parties and all relationships and transactions with related parties***

We believe this additional language should also be included in item 2.a. in the first illustrative representation letter (that is, the illustrative short-form representation letter) for a review of interim financial information.

***Economic considerations***

We believe the level of audit effort required to implement the repropoed standard and amendments will correlate with the number and nature of a company's related party relationships and transactions, significant unusual transactions, and financial relationships and transactions with executive officers, and with the process the company has in place to identify such matters. We also agree with the Board's observation that smaller companies, some of which may be Emerging Growth Companies (EGCs) and brokers and dealers, may engage in more related party transactions compared to other companies, which will result in higher audit costs but is commensurate with the risk of material misstatement. As a result, we support the application of the repropoed standard and amendments to all audits performed in accordance with PCAOB standards, including audits of EGCs and audits of brokers and dealers.

***Effective date***

The Board anticipates that the repropoed 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. Because the repropoal will affect audit planning for calendar year 2014 audits, updates to audit policy and methodology will need to occur before planning for 2014 audits commences. Accordingly, we believe the Board's anticipated effective date is reasonable only if the SEC approves the Board's final standard no later than mid-November 2013.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact George Kennedy (973-236-5361) or Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".