

May 15, 2012

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

RE: Proposed Auditing Standard – *Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions and Other Proposed Amendments to PCAOB Auditing Standards*

To Whom It May Concern:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Professional Standards Committee (PSC) to represent those interests on accounting and auditing matters. The views expressed herein are written on behalf of the PSC. The PSC has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

Our discussion of the above referenced exposure draft (ED) resulted in the following answers to the questions posed by the Board.

Question 1: Is the framework neutral approach described in the introduction of the proposed framework appropriate? If not, why not?

We agree with the framework neutral approach.

Question 2: Is the objective of the proposed standard appropriate? If not, why not?

We believe the objective of the proposed standard is appropriate.

Question 3: Does the proposed standard clearly articulate the auditor's responsibility for identifying related parties and obtaining an understanding of the company's relationships and transactions with related parties?

In our opinion, the proposed standard clearly articulates the auditor's responsibility for identifying related parties and obtaining an understanding of the company's relationships and transactions with related parties.

Question 4: Are the procedures for identifying related parties and obtaining an understanding of relationships with related parties appropriate?

The identification procedures and the procedures for obtaining an understanding of relationships with related parties appear to be appropriate.

Question 5: Are the proposed requirements regarding the auditor's responsibility for information that comes to the auditor's attention that indicates that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist appropriate? If not, why not? Are there additional examples that should be included in Appendix A?

We found this question to be somewhat difficult to understand. We believe a more appropriate question is whether the proposed standard is clear regarding the auditor's responsibility when information comes to his or her attention that indicates that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist. Paragraph 11, as well as Appendix 2 and Appendix 3 provide procedures and transaction types that provide potential indicators of previous undisclosed transactions with related parties. However, none of the aforementioned paragraphs are clear as to what the auditor's responsibility is for the information that comes to the auditor's attention that indicate that previous undisclosed transactions might exist. Paragraph 16 mentions that procedures should extend beyond inquiry of management. However, examples of such procedures are not provided in the proposed standard. If the Board has specific requirements in mind regarding procedures beyond the inquiry of management, then examples of such procedures should be included in Appendix A.

Question 6: Is paragraph 12 of the proposed standard appropriately aligned with the existing requirements regarding the identification and assessment of risks of material misstatement?

Paragraph 12 of the proposed standard appears to be aligned with the existing requirements regarding the identification and assessment of risks of material misstatements.

Question 7: Are there other examples of fraud risk factors, in addition to dominant influence, that should be included in the proposed amendments to assist the auditor when determining whether a related party transaction is a fraud risk or other significant risk?

We believe there are numerous examples of related party transactions that imply a fraud risk or other significant risk. The following examples represent the kind of related party transactions that may well be an indication of fraud risk or other significant risk. We feel that numerous examples such as these exist in this area.

- Related party sourced sales and revenue.
- Related party purchases of materials or services.
- Issuance of stock to related parties, especially in situations where the stock is paid for services provided by the related party.
- Debt conversions by third parties to related parties.
- Review of shareholder lists or non-objecting beneficial owners lists for potential undisclosed related parties.

- Transactions through an attorney or corporate counsel concealing related parties.
- Review beneficial owner disclosures in 10Ks or S-1s for possible related parties.

Question 8: Are there particular related party transactions that should be deemed a fraud risk or other significant risk?

See our response to Question 7 above.

Question 9: Is paragraph 13 of the proposed standard appropriately aligned with existing requirements regarding responding to the risks of material misstatement?

We believe paragraph 13 of the proposed standard is appropriately aligned with the existing requirements regarding responding to the risks of material misstatement.

Question 10: Are the procedures regarding related party transactions required to be disclosed in financial statements, or that are a significant risk appropriate? Are there other specific procedures that should be required?

We feel the procedures are appropriate. Paragraph 15d seems to indicate that the auditor should do what is necessary to become satisfied that their procedures are sufficient to satisfy any concerns surrounding related party transactions.

Question 11: Are the requirements in paragraph 16 of the proposed standard appropriate concerning the auditor's responsibilities regarding information that indicates that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist?

We believe the requirements in paragraph 16 are appropriate.

Question 12: Are the requirements in paragraph 17 appropriate regarding the identification of related parties or relationships of transactions with related parties previously undisclosed to the auditor?

We believe the requirements in paragraph 17 are appropriate, even when the relationship or transaction with related parties was previously undisclosed.

Question 13: Are the requirements in the proposed standard regarding the auditor's evaluation of the company's financial statement accounting and disclosure of related party transactions appropriate?

We are basically in agreement with the goals of the proposed standard. However, we find it difficult to conclude that a related party transaction is one that is performed on equivalent terms with an arms-length transaction. We believe this is true based on the nature of a related party transaction and the association of the parties involved. Thus, when we analyze the paragraph on page A4-27 that begins "A note to paragraph 19 . . ." we conclude that this proposed standard will cause a significant number of

qualified audit reports to be issued due to the fact that quality independent substantiating evidence that must be mandatorily acquired will not be available or even exist.

Question 14: Are the proposed requirements for substantiating management assertions that a related party transaction was consummated on terms equivalent to those prevailing in arms-length transactions appropriate? If not, what other requirements are appropriate?

As indicated in our answer to Question 13, we believe the auditor will have difficulty in obtaining corroborating evidence as to the arms-length equivalence of related party transactions. While the proposed standard appears appropriate, we question its practicality as it usurps management's responsibility for financial disclosure and accounting responsibility, and places the burden squarely on the auditor as a surety to the users of the financial statements. According to the Securities Acts of 1933 and 1934, this responsibility rests with entity management, not the auditor.

Question 15: Are the requirements in the proposed standard for the auditor to communicate to the audit committee regarding relationships and transactions with related parties appropriate?

We believe these requirements are consistent with existing rules and are appropriate.

Question 16: Should the proposed standard change the auditor's responsibilities for the auditor's report regarding related party transactions? If so, how?

We believe the auditor should be encouraged to exercise his or her professional judgment in dealing with related party transaction issues and their impact on the auditor's report. Related party transactions pose a unique issue that does not lend itself to narrow reporting guidelines.

Question 17: Are the proposed amendments regarding the auditor's identification of significant unusual transactions appropriate? If not, why not?

We believe the proposed amendments are appropriate.

Question 18: Are the proposed amendments regarding the auditor's evaluation of significant unusual transactions appropriate?

We believe the proposed amendments in this area are appropriate.

Question 19: Are the proposed amendments to Auditing Standard No. 12 regarding a company's financial relationships and transactions with its executive officers appropriate? If not, why not?

We believe the proposed amendments to Auditing Standard No. 12 are appropriate.

Question 20: Are the other proposed amendments to PCAOB auditing standards appropriate? If not, why not?

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The proposed amendments to PCAOB auditing standards appear to be appropriate.

Question 21: Are the proposed standard and proposed amendments appropriate for audits of brokers and dealers?

As long as the proposed standard and proposed amendments in this area are consistent with existing literature in this area, we believe they are appropriate.

Question 22: Are there additional procedures specific to audits of brokers and dealers that should be included in the proposed standard and proposed amendments?

We are not aware of any additional procedures in this area that should be included in the proposed standard and proposed amendments.

Question 23: Should the auditor's communication to audit committees included in the proposed standard be applicable to audits of brokers and dealers? If not, provide examples and explanations of why the communication requirements should not be applicable for audits of brokers and dealers.

We believe the auditor's communication to audit committees included in the proposed standard is applicable to audits of brokers and dealers.

Question 24: Is the Board's anticipated effective date appropriate?

Question 25: Does the proposed effective date allow sufficient time for firms to incorporate the new requirements into their methodology, guidance and audit programs, and training for staff?

We do not believe the Board's anticipated effective date is appropriate as we believe it does not allow sufficient time for firms to incorporate the new requirements into the methodologies, guidance and audit programs, and staff training. We encourage the Board to reconsider its proposed effective date.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,



Kathryn W. Kapka, CPA, CIA, CGAP
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants