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

**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**

Office of the Secretary:

Crowe Horwath LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) "Proposed Auditing Standard, *Related Parties*, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards" (Proposed Standard or Proposed Amendments, as applicable).

We support the PCAOB's efforts to improve audit quality by enhancing existing auditing standards, and we are pleased to provide our observations regarding possible clarifications to the Proposed Standard and Proposed Amendments.

Proposed Standard, *Related Parties*

Paragraph 15 relates to "each related party transaction, or type of related party transaction, that is either required to be disclosed in the financial statements or determined to be a significant risk"; however, the procedures listed could be interpreted to be applicable to each transaction underlying a "type". A company may engage in many related party transactions in the ordinary course of business that are required to be disclosed but do not represent a significant risk. For example, a financial institution may have numerous retail bank accounts of a given type with related parties on terms identical to the accounts of unrelated parties (and which terms are subject to specific banking regulations). We believe the standard should be more clear regarding the need for auditor judgment in determining the extent to which underlying transactions within a type of transactions must be subjected to the procedures described. Such judgment is consistent with wording contained in Appendix 4, page A4-19, as follows:

"Accounting principles applicable to the company may allow the aggregation of related party transactions that require disclosure (e.g., by type of related party transaction). In these cases, the auditor would be required to test the compilation and disclosure of these transactions and the extent of the auditor's testing on the underlying transactions, consistent with the requirements of Auditing Standard No. 13, should be commensurate with the risks of material misstatement."

We suggest that language similar to that in Appendix 4 be added to paragraph 15 in order to clarify the requirements and allow appropriate auditor judgment in determining the testing approach for a "type" of related party transaction.

Paragraph 17 contains requirements to be applied to each previously undisclosed related party relationship or transaction, including the requirement to treat the related party transaction as a significant risk and performing the procedures required by paragraph 15. We believe there may be instances where previously undisclosed transactions may be determined to not represent a significant risk without the performance of all the procedures in paragraphs 17 and 15. For example, previously undisclosed transactions may occasionally be overlooked by management due simply to their inconsequential nature. We believe paragraph 17 should be clarified to provide for auditor judgment in determining if the previously undisclosed relationship or transaction should be treated as a significant risk, and in determining the extent of procedures necessary to address the risk of material misstatement. We believe this would be consistent with the stated intent of the PCAOB's risk assessment standards.

Paragraph 20 requires the auditor to communicate to the audit committee the auditor's evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties, and other significant matters arising from the audit regarding the company's relationships and transactions with related parties. Since some entities, such as small non-issuer brokers and dealers, do not have an audit committee, we suggest that the standard further clarify the expectations as to with whom the auditor should communicate. This could be accomplished by including a definition of the term "audit committee" consistent with that included in the PCAOB's *Proposed Auditing Standard Related to Communications with Audit Committees*.

Proposed Amendments to Auditing Standard No. 12, *Identifying and Assessing Risk of Material Misstatement*

Paragraph 10A in the Proposed Amendments requires the auditor to perform procedures to obtain an understanding of the financial relationships and transactions with executive officers, and the Proposed Amendments also include a definition of "executive officer." Additional discussion in Appendix 4, page A4-42 states that "the population for the proposed procedures required by paragraph 10A is the list of executive officers disclosed in the securities filing or the executive officers included on Schedule A of Form BD." We believe this Appendix 4 discussion is important since it is inherently a management responsibility to determine those employees empowered as executive officers, and the reporting of these officers in securities filings involves matters of legal interpretation. Accordingly, we suggest that language similar to that in Appendix 4, page A4-42 be incorporated into the final amendments to AS 12 to clarify that it is management's responsibility to designate the executive officers, and the auditor's responsibility under paragraph 10A relates to those officers so designated.

Paragraph 11 includes a requirement to obtain an understanding of compensation arrangements with senior management other than executive officers. While "executive officer" is defined in the Proposed Amendments, there is no definition of "senior management." We suggest that the final amendments be clarified by including a definition of "senior management" for purposes of applying the requirements of paragraph 11.

Crowe Horwath LLP supports the Board's efforts to improve its auditing standards and the reporting for investors. We hope that our comments and observations will assist the Board in its consideration of the matters in the Proposed Standard and Proposed Amendments.

Cordially,



Crowe Horwath LLP