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

Re: Request for Public Comment: *Proposed Auditing Standard – Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards, PCAOB Rulemaking Docket Matter No. 038*

Dear Office of the Secretary:

Plante & Moran PLLC is a registered public accounting firm serving smaller and middle-market issuers, brokers, and dealers. We appreciate the opportunity to respond and provide our views to the Public Company Accounting Oversight Board (PCAOB or the Board) on its *Proposed Auditing Standard – Related Parties* (Proposed Standard), *Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards* (Proposed Amendments).

We support the PCAOB's proposed auditing standard and related proposed amendments to other auditing standards intended to strengthen existing audit procedures for identifying, assessing, and responding to the risks of material misstatement associated with a company's related party transactions. However, we have the following comments related to specific paragraphs of the proposal that we believe should be clarified or modified.

Proposed Standard – *Related Parties*

Identifying Related Parties and Obtaining an Understanding of Relationships and Transactions with Related Parties

Paragraph 3 of the proposed standard requires the auditor to perform procedures to identify the company's related parties. This is somewhat inconsistent with both the Introduction and Objective of the proposed standard, which state the auditor's responsibility is to obtain appropriate audit evidence to determine if management has properly identified related parties. The second sentence of paragraph 3 requires the auditor to identify the likely sources of material misstatements in the financial statements that may arise from the company's relationships and transactions with related parties. We believe the second sentence of the paragraph should be moved to the first sentence to stress the importance that the auditor should consider the likely sources and risks of material misstatements to the financial statements prior to performing procedures related to testing of the identification of related parties. Our recommendation for the modification is as follows:

The auditor should identify the likely sources of potential material misstatement in the financial statements that may arise from the company's relationships and transactions with related parties or relationships or transactions with related parties previously undisclosed to the auditor. To address the identified risks, the auditor should perform procedures to determine whether the company has properly identified its related parties, and gained an understanding of the terms and business purposes (or the lack thereof) of the types of transactions involving related parties.

Paragraph 6 of the proposed standard requires the auditor to make certain inquiries of management regarding related parties. The proposed standard requires the auditor to make the same inquiries regardless of the nature of the transaction. We believe paragraph 6 should be revised to allow for the use of auditor judgment to determine which inquiries should be made based on the nature of the transactions and the associated risk of material misstatement to the financial statements.

Responding to the Risks of Material Misstatement

Paragraph 15 of the proposed standard requires the auditor to perform certain procedures for each related party transaction, or type of related party transaction, that is required to be disclosed in the financial statements or determined to be a significant risk. In certain situations the potential related party transactions or types of transactions that may occur may not be considered a significant risk of material misstatement to the financial statements. We believe paragraph 15 should be revised to allow for the use of auditor judgment to determine the extent of procedures required in order to address the risk of material misstatement to the financial statements associated with related party transactions, or types of transactions, which are required to be disclosed in the financial statements.

Paragraph 17 of the proposed standard requires the auditor to perform certain procedures in situations in which the auditor discovers the existence of a previously undisclosed related party. The proposed standard appears to require the auditor to perform all of the listed procedures in all situations in which the auditor discovers the existence of a previously undisclosed related party. The proposed standard does not allow for different procedures to be performed based on the nature of the previously undisclosed related party and the associated risk of material misstatement. We believe paragraph 17 of the proposed standard should be clarified to allow for the use of auditor judgment to determine the extent of procedures that are required to be performed to address the risk of material misstatement in situations in which the auditor determines the existence of a previously undisclosed related party.

Thank you again for the opportunity to comment on this proposal. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Gregory Coursen, Director of Professional Standards, at 248-223-3360.

Plante & Moran, PLLC