



July 3, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
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Via Email to comments@pcaobus.org

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Re: PCAOB Rulemaking Docket Matter No. 038 – Proposed Auditing Standard on Related Parties and Related Amendments to PCAOB Auditing Standards

Dear Board Members and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") repropoed auditing standard, *Related Parties*, amendments to certain PCAOB auditing standards regarding significant unusual transactions, and other amendments to PCAOB auditing standards. We recognize the Board's considerable efforts in responding to comments received on the original proposal, and we value the importance and ability to provide additional comments on the Board's related revisions.

Overall, we support the issuance of the repropoed auditing standard and amendments, which seem to be more closely aligned with the Board's risk assessment standards. We believe that the repropoed auditing standard and amendments will likely strengthen the auditor's procedures with regard to related parties and relationships and transactions with related parties, as well as significant unusual transactions, ultimately resulting in enhanced audit quality and investor confidence. However, we also believe that the important changes that the PCAOB has made to align the proposal with the risk assessment standards and to allow for more auditor judgment can be strengthened if the Board were to revisit its standard-setting approach, particularly with respect to the use of application guidance, as described further below. In our view, it is unlikely that the key considerations embedded in the Board's views on the application of the requirements that are included in the current release of the repropoal will be considered in the implementation of the final standard unless they are appropriately carried forward.

In Appendix 4, *Additional Discussion of the Repropoed Standard and Amendments and Questions for Public Comment*, of the PCAOB release, the Board indicates that, consistent with other projects, it includes performance requirements in the standard, while providing additional discussion and examples in an appendix. This approach is intended to promote "...a clear separation between the required procedures in the standard and the Board's discussion regarding the potential application of the standard." We do not disagree with separating the requirements from the additional discussion that provides application guidance, but we have significant concerns with a commenter's ability to provide, and the PCAOB to obtain, beneficial feedback on a proposal

when it is unclear the extent to which the additional discussion in a particular release will be carried forward to a final standard, such as in an appendix thereto.

We believe that some of the requirements can be vastly misinterpreted with respect to the extent to which they should be performed, when read out of context, without the benefit of the additional discussion addressing the Board's intent. In this particular release, the Board has included an extensive discussion pertaining to the underlying requirements, such as guidance regarding the purpose of performing procedures to understand compensation arrangements and the extent of testing related to the accuracy and completeness of related parties and relationships and transactions with related parties, including the auditor's responsibilities with respect to the sources of information that could indicate that undisclosed related parties or relationships and transactions with related parties may exist (for example, the auditor is not required to perform procedures with respect to each source referenced in Appendix A). We would expect the Board to carry forward the essential guidance currently in Appendix 4 of the release in a separate appendix to the final standard, thus making such guidance part of the standard as well as readily accessible and searchable. Without doing so, we believe that the Board may inadvertently affect the consistency of implementation and the initial and recurring implementation costs, including costs resulting from future interpretations of the Board's requirements as part of internal or external inspections or even potential litigation. We also respectfully suggest that all future releases more clearly separate the Board's analyses, questions, initial conclusions, and considerations of comments received from the essential guidance that needs to, and is expected to, remain as part of the final standard in order for auditor's to fully understand the Board's expectations and to implement appropriate policies and procedures to meet those expectations.

Below please find additional comments and suggestions for the Board's consideration related to specific aspects of the repropoed auditing standard and amendments and comments related to certain questions raised by the Board in Appendix 4.

Applicability and scalability

Related parties and relationships and transactions with related parties or significant unusual transactions may exist at any entity, regardless of its size. Accordingly, we believe that the repropoed auditing standard and amendments should be applicable to all audits performed under PCAOB standards, including audits of emerging growth companies and audits of brokers and dealers. However, scalability is fundamental for the auditor to be able to appropriately apply skepticism and judgment to assess and respond to risks of material misstatement.

Generally, we believe that the repropoed auditing standard and amendments are scalable and that specific requirements to address certain types of entities, such as emerging growth companies and brokers and dealers, need not be separately included. The requirements in any one standard need to be broad so that they can be applied in each audit, regardless of the type of entity or the nature of its activities. In addition, we believe that the expected costs of initial implementation, including training, would generally be the same, as a firm's methodology, tools, and guidance would be based on the broad principles and requirements that are to be adapted for the entity under audit, while considering the industries in which the firm focuses. For

instance, in an audit of a broker and dealer, a firm may indicate that the risks related to expense sharing and related cost allocations may be elevated. Specific industry related guidance also tends to be enhanced over time by standard-setters, regulators, and firms alike.

Linking the repropoed auditing standard and amendments more closely to the risk assessment standards promotes scalability. Critical to the appropriate application of scalability, however, is the varying extent to which audit procedures need to be performed and documented to demonstrate the auditor's compliance with the requirements, particularly in situations in which the risks of material misstatement are not significant. For example, the extent to which the auditor performs procedures to test the accuracy and completeness of related parties and relationships and transactions with related parties, to determine whether any exceptions to the company's established policies or procedures were granted, or to evaluate the financial capability of related parties will vary with each audit. Although the Board recognizes that audit procedures would vary, the requirements themselves without the inclusion of the additional, essential guidance may drive auditors to perform more audit procedures when unnecessary to do so.

Relationships and transactions with executive officers

We continue to support the amendments related to understanding the company's financial relationships and transactions with its executive officers to identify pressures or incentives that may heighten risks of material misstatement. We also commend the PCAOB for clarifying, as suggested by commenters, the purpose of the related requirements and that such requirements are not intended for the auditor to assess the appropriateness of compensation arrangements. However, in connection with our previous comments, we believe that the statements made in Appendix 4 relative to these requirements are essential and need to be carried forward to the final standard to provide context for the auditor as to the nature of the risks that should be evaluated when obtaining an understanding of those arrangements.

Identifying and responding to risks of material misstatement

We agree with the requirements in the repropoed auditing standard for the auditor to identify and assess the risks of material misstatement associated with related parties and relationships and transactions with related parties and to design and implement audit responses that address the identified and assessed risks. We believe that it may be helpful to include a reference to the requirements pertaining to past audits within the Board's risk assessment standards to further enhance the effectiveness of the audit process, particularly in reference to reading underlying documents and evaluating terms and other information concerning significant ongoing matters, while also reminding auditors of their responsibility related to the continued relevance and reliability of information previously obtained.

Undisclosed related parties or relationships or transactions

We support the Board's revision to remove the requirement in the original proposal to treat each previously undisclosed related party transaction as a significant risk. In our comment letter, dated May 31, 2012, on the original proposal, we expressed our concerns with several fairly prescriptive requirements, including this particular requirement, which did not seem to take into account the auditor's reassessment of the risk of material misstatement. The Board's

revision introduces a more principles- and risk-based approach. Nevertheless, we believe that additional revisions are necessary to the repropose requirement in paragraph 16.

Paragraph 16 continues to include an extensive list of procedures that apply when the auditor determines that a previously undisclosed related party or relationship or transaction with a related party exists. The nature and extent of several procedures, however, is dependent on the results of the auditor's inquiries of management (paragraph 16a) and the auditor's evaluation of why the related party or relationship or transaction with a related party was previously undisclosed (paragraph 16b). In this regard, we believe that the requirement in paragraph 16 may be bifurcated so that the auditor takes such information into account in determining whether the risk of material misstatement needs to be reassessed and the additional audit procedures necessary to respond to the increased or newly identified risks. We further believe that the requirements in paragraphs 16e and 16h can be moved to a note that more simply refers to the applicability of paragraph 12 when related party transactions are required to be disclosed or determined to be a significant risk and to the auditor's responsibilities related to identified or suspected fraud and illegal acts.

Audit committee communications

The repropose auditing standard would require auditors to communicate other *significant* matters arising from the audit, including, among other things, the identification of undisclosed related parties or relationships or transactions with related parties (paragraph 19a). We believe that this requirement can be interpreted in varying ways, such as requiring the auditor to communicate only those undisclosed related parties or relationships or transactions with related parties that the auditor deems to be a significant matter or to communicate all undisclosed related parties or relationships or transactions with related parties because they are considered by the repropose auditing standard to be a significant matter.

As indicated in Appendix 4 of the PCAOB release, the repropose auditing standard intends to allow for more auditor judgment by not requiring that each undisclosed related party transaction be treated as a significant risk. Relative to communications with the audit committee, Appendix 4 also indicates that concerns regarding the original proposal were expressed by certain commenters that suggested additional auditor judgment so as to avoid unnecessary costs. Accordingly, to allow for more auditor judgment as intended by the Board with regard to the procedures related to undisclosed related party transactions and to eliminate the potential for misapplication of the requirement by various auditors, we believe that the communication requirement in paragraph 19a should be revised to pertain to the identification of "significant" related parties or relationships or transactions that were previously undisclosed. This would also seem consistent with the nature and extent of the other required audit committee communications.

Effective date

We acknowledge the importance of adopting the repropose auditing standard and related amendments as soon as practicable. However, we believe that the feasibility of the anticipated effective date is dependent on the SEC's date of approval and the lead time provided for firms to appropriately update their policies and guidance and develop and deliver training prior to the

first quarter subject to the new requirements. For an entity with a calendar year-end, it may be difficult and sometimes disadvantageous for firms to adopt new policies and procedures and provide training in the midst of “busy season.” Accordingly, we suggest that the Board consider, based on the potential timing of the SEC’s approval, whether an effective date for fiscal years beginning on or after December 15, 2014, with early implementation permitted, may be more suitable. A later effective date can promote audit quality by allowing firms to early adopt and to further refine the policies, procedures, and guidance for questions and other matters that arise during implementation.

If you have any questions about our response, or wish to further discuss our comments, please contact Karin A. French, National Managing Partner of Professional Standards, at Karin.French@us.gt.com or at (312) 602-9160.

Sincerely,

