



July 5, 2013

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*

PCAOB Rulemaking Docket Matter No. 038

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, which 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 TSCPA.

We appreciate the opportunity to provide input into your deliberations on the above-referenced Exposure Draft (ED). Our discussion resulted in the following answers to the questions posed by the Board.

Question 1: Are the requirements of the repropoed standard appropriate? Why or why not?

Except as otherwise noted in this letter, we believe the repropoed standard is appropriate.

Question 2: Do the changes in the repropoal clarify the relationship of the repropoed standard with the risk assessment standards? Why or why not?

We believe the changes in the repropoal clarify the relationship of the repropoed standard with the risk assessment standard.

Question 3: Does the alignment of the repropoed standard with the risk assessment standards enable the auditor to introduce efficiencies in the audit approach? Why or why not?

Although the alignment is an enhancement to the overall risk assessment process, we feel a standard that has additional requirements placed upon the auditor does not produce efficiencies in the audit process.

Question 4: Would the procedures required by the repropoed standard improve the auditor's understanding of a company's relationships and transactions with its related parties? Why or why not?

The required procedures appear to focus on the issues that would enhance an auditor's understanding of a company's relationships and transactions with related parties.

Question 5: Is the requirement in the repropoed standard to evaluate whether the company has properly identified the company's related parties and relationships and transactions with its related parties appropriate? Why or why not?

Yes, the requirement in the repropoed standard is appropriate. The repropoed standard will, in some cases, increase audit procedures through increased inquiries and testing procedures, but is more likely to provide for more complete and accurate disclosures. The repropoed standard's potential for increased communication with the audit committee could also provide another level of transparency, communication and interaction with the audit committee.

Question 6: Does the repropoed standard appropriately allow for the use of auditor judgment? Why or why not?

We do not believe the repropoed standard allows for an appropriate level of professional judgment. Although the repropoed standard appears to allow the auditor to determine to whom the inquiries will be directed and the extent of the inquiries, paragraphs 14 and 15, and specifically Appendix A, appear to require specific procedures to identify significant and unusual undisclosed related party transactions that "might" exist whether or not there is evidence leading the auditor to believe that such transactions "might" exist or not. Appendix 4 appears to indicate that the procedures outlined in Appendix A would not be considered necessary if the results of information gathered during the audit do not indicate that significant and unusual transactions with related parties exist. However, in order to follow the repropoed standard as written in paragraphs 14 and 15, it would seem to require the auditor to perform the specific procedures in Appendix A to gather such evidence. Accordingly, the auditor's judgment is limited to performing, at a minimum, the procedures outlined in Appendix A.

Question 7: Are the auditor's responsibilities for the examples of information and sources of information contained in Appendix A to the repropoed standard clear? Are there other examples that should be included in the repropoed standard?

We do not believe the auditor's responsibilities for the examples of information and sources of information contained in Appendix A to the repropoed standard are clearly stated. While Appendix A provides a list of examples that help to identify related parties or transactions with related parties, it is not clear and appears inconsistent with the guidance in paragraphs 14 and 15 of the repropoed standard. Paragraph 14 appears to indicate the auditor's responsibility is to prove that no significant or

unusual related party transactions exist, even when there are no indicators of such transactions. It is unclear whether the auditor is required to gather such information during the audit and prove no relationships exist or is only responsible when such information comes to the auditor's attention as a result of other procedures performed. To amplify on this point, one of the examples in Appendix A relates to "buying and selling goods or services at prices that differ significantly from prevailing market prices." The question this situation raises is: Would the auditor be responsible for obtaining the prevailing market price of goods or services bought in all situations or only when a potential disparity comes to the auditor's attention as a result of other audit procedures performed? We have no suggestions for additional examples for inclusion in Appendix A.

Question 8: Is the objective of the repropoed standard appropriate? Why or why not? Does the repropoing release clearly articulate that the objective of the repropoed standard works similarly to the objectives contained in other PCAOB auditing standards?

We believe the stated objective of the repropoed standard is appropriate and that it adequately addresses the auditor's responsibilities for addressing related party transactions. The repropoed release clearly articulates that the objective in the propoed standard is aligned with other PCAOB auditing standards, which require an auditor to obtain sufficient appropriate audit evidence to support audit conclusions that transactions are properly identified, accounted for, and disclosed in the financial statements.

Question 9: Does the requirement in the repropoed standard to perform specific procedures for each related party transaction required to be disclosed in the financial statements or determined to be a significant risk provide for a scaled approach? Why or why not?

We do not believe the repropoed standard provides for a scaled approach. The standard as propoed is prescriptive as to procedures and mandated for all transactions disclosed or deemed a significant risk providing for little scalability.

Question 10: Does the approach in the repropoed standard for the auditor to perform specific procedures for related party transactions that are required to be disclosed in the financial statements or that are determined to be a significant risk represent a cost-sensitive, yet effective, approach? Why or why not?

We do not believe the approach is necessarily cost sensitive since the document is very prescriptive as to the procedures that must be performed. There appears to be very little room for the exercise of professional judgment on the part of the auditor.

Question 11: What additional guidance, if any, regarding the auditor's responsibility for performing procedures on intercompany account balances pursuant to paragraph 13 of the repropoed standard is necessary?

We see no need for additional guidance necessary in the area of intercompany account balances.

Question 12: Are the repropoed amendments regarding the auditor's identification of significant unusual transactions appropriate? Why or why not?

We believe the repropoed amendments regarding the auditor's identification of significant unusual transactions to be appropriate.

Question 13: Are the repropoed amendments regarding the auditor's evaluation of significant unusual transactions appropriate? Why or why not?

We are in agreement with the repropoed amendments regarding the auditor's evaluation of significant unusual transactions.

Question 14: Would the procedures required by the repropoed amendments regarding significant unusual transactions improve the auditor's identification and evaluation of a company's significant unusual transaction? Why or why not?

We believe the new required procedures will create a heightened awareness of significant unusual transactions resulting in better identification and evaluation of these transactions and the issues surrounding them.

Question 15: Are the repropoed amendments regarding significant unusual transactions appropriately aligned with the risk assessment standards? Why or why not?

We find the repropoed amendments regarding significant unusual transactions to be appropriately aligned with the risk assessment standards.

Question 16: Do the repropoed amendments regarding significant unusual transactions appropriately allow for the use of auditor judgment? Why or why not? Does the requirement that the auditor perform specific procedures for each significant unusual transaction identified by the auditor provide for a scaled approach? Why or why not?

The repropoed amendments regarding significant unusual transactions seem to allow for an appropriate amount of auditor judgment in their application. Also, the requirement that the auditor perform specific procedures for each significant unusual transaction identified does provide for an appropriately scaled approach.

Question 17: Is the complementary relationship between the amendments regarding significant unusual transactions and the repropoed standard clear? Why or why not?

We believe this complementary relationship is clearly presented in the repropoed standard.

Question 18: Are the other repropoed amendments appropriate to address risks of material misstatement of the financial statements? Why or why not?

We have no reason to believe that the repropoed amendments would not adequately serve to address the risks of material misstatements in the financial statements.

Question 19: Is it sufficiently clear that the auditor (a) should obtain an understanding of the company's financial relationships and transactions with its executive officers as part of the auditor's risk assessment and (b) should not assess the appropriateness of executive officer compensation? Why or why not?

We believe the repropoed standard is abundantly clear about the auditor's responsibility regarding an understanding of the financial relationships and transactions between the company and its executive officers. Also, the repropoed standard is clear in its prohibition of an auditor's assessment of the appropriateness of executive officer compensation.

Question 20: Are "executive officers" the appropriate population for the audit procedures designed to provide the auditor with an understanding of the company's financial relationships and transactions as part of its risk assessment process? Why or why not?

We believe the "executive officers" of a company constitute the most logical and appropriate group to provide information to the auditor regarding an understanding of the company's financial relationships and transactions as part of its risk assessment process.

Question 21: Would improving the auditor's understanding of a company's relationships and transactions with its related parties assist the auditor in obtaining sufficient appropriate evidence necessary to support the audit opinion? Would improving the auditor's understanding promote the exercise of professional skepticism? Would improving the auditor's understanding increase the likelihood of the auditor identifying material misstatements? Are there additional benefits that the Board should consider?

A better understanding of an entity's related party transactions would always enhance the auditor's ability to obtain more reliable evidence. Regarding the exercise of professional skepticism, it would appear that a better understanding of an entity's related party transaction would make the exercise of professional skepticism more relevant and provide a better basis for a greater or lesser amount of skepticism in the performance of the audit. Also, to the extent that related party transactions are better identified, the less likelihood exists that material misstatements will not be identified.

Question 22: Could the required communications with audit committees in the repropoed standard result in improvements to audit committees' abilities to fulfill their duties?

The required communications with audit committees will enhance communications between the auditor and the audit committee members thus resulting in more relevant consideration of issues facing the company. This is a benefit that we see improving as the communication process becomes more open and candid.

Question 23: Could the improved communications between the audit committee and the auditor lead to an improvement in the company's financial statement disclosures about its relationships and transactions with its related parties?

We believe that improved communications with audit committees can't help but enhance financial statement disclosure and a greater amount of transparency in the manner in which related party transactions are communicated to financial statement users.

Question 24: Would improving the auditor's identification and evaluation of significant unusual transactions increase the likelihood of the auditor identifying potential misstatements, including misstatements due to fraud? Would improving the auditor's identification and evaluation of significant unusual transactions promote the exercise of professional skepticism by the auditor? Are there additional benefits that the Board should consider?

Based on the fact that unusual transactions often result in an increased risk of misstatements or fraud, we believe the auditor's identification and evaluation of significant unusual transactions will increase the likelihood that auditors identify misstatements and fraud. We do not necessarily believe that improving the auditor's identification of significant unusual transactions promotes the exercise of professional skepticism. However, we believe the evaluation of the transaction, particularly the need to evaluate the business purpose (or lack thereof) may enhance the auditor's application of professional skepticism. We have no suggestions for additional benefits that should be considered by the Board.

Question 25: Could the repropoed amendments regarding significant unusual transactions lead to an improvement in the company's disclosures about its significant unusual transactions?

We believe that inquiries and procedures performed by an auditor regarding significant unusual transactions will often lead to an improvement in the disclosure of such transactions.

Question 26: What benefits are associated with auditors obtaining an understanding of a company's financial relationships and transactions with its executive officers as part of its risk assessment? Are there additional benefits that the Board should consider?

We believe that numerous benefits result when the auditor understands a company's financial relationships and transactions with its executive officers. Such benefits include the motivation of the executive officers, the ability of the executive officers to affect the outcome of the transactions, the details of the transactions to more fully assess the recording and reporting of the transactions, and a clear understanding of the risks associated with these transactions. We believe these benefits result in better risk assessment in this area and more relevant audit testing. We have no additional benefits for the Board to consider.

Question 27: What benefits are associated with the other repropoed amendments?

We have no additional benefits to suggest to the Board.

Question 28: What costs will audit firms incur when implementing the repropoed standard and amendments? Please discuss both initial costs and recurring costs.

In implementing the repropoed standards and amendments, we foresee an audit firm incurring initial costs for staff training. Other initial costs involve incorporating changes to audit methodologies and audit programs. We would not anticipate significant recurring costs.

Question 29: What costs will companies incur as a result of the implementation of the repropoed standard and amendments?

Companies may incur initial costs in training of personnel and audit committee members. However, recurring costs of implementation would not be significant.

Question 30: Could the repropoed standard and amendments lead to other changes in behavior by the auditor, the company, or the audit committee that the Board should consider?

We are not aware of any other change in behavior of the auditor, the company, or the audit committee that needs to be considered by the Board.

Question 31: Are there considerations relating to smaller companies that the Board should be aware of in considering its repropoal? Do smaller companies share the same risk of material misstatement of the financial statements regarding related party transactions and significant unusual transactions as the broader issuer population? Are related party transactions more common in smaller companies than the broader issuer population? Would the repropoed standard and amendments result in smaller companies experiencing unnecessarily greater or disproportionate costs compared to those experienced by larger companies? If so, how could such costs be controlled while improving audit quality?

Smaller companies, we believe, pose a higher risk of material misstatement of the financial statements with respect to related party and significant unusual transactions than the broader issuer population because there are generally, as a percent of the total transactions, more of these types of transactions. In addition, accounting departments in smaller companies have fewer employees, are less sophisticated, and internal controls are weaker. However, we don't believe the costs resulting from the implementation of the repropoed standard would be unduly burdensome.

Question 32: Are there any unique considerations regarding costs for audits of brokers and dealers?

Based on our knowledge of broker and dealer audits, we are not aware of unique considerations regarding costs of implementing the repropoed standards.

Question 33: Are there unique considerations regarding costs for specific types of companies based on characteristics other than size of the transaction (e.g., industry)?

There are no unique implementation cost considerations based on specific types of companies or industries.

Question 34: Are there additional considerations relating to competition, efficiency, and capital formation that the Board should take into account with respect to the repropoed standard and amendments? Specifically, are there benefits in lowered cost of capital from confidence in audits of issuers with related party disclosures?

We are not aware of any other issues relating to competition, efficiency, and capital formation that should be considered by the Board.

Question 35: Should the repropoed standard and amendments be applicable for audits of EGCs? Why or why not? Please provide empirical data, examples and explanations for why the requirements should or should not be applicable for audits of EGCs.

Yes, in our opinion the repropoed standard and amendments should be applicable for audits of emerging growth companies (EGCs). We believe the inherent risk of material misstatement of the financial statements relating to the topics covered by the repropoed standard is similar to, or in certain cases higher than, the inherent risk to non-EGC companies.

Question 36: Are related party transactions or significant unusual transactions more common at EGCs than the broader issuer population? Do financial relationships and transactions with executive officers at EGCs give rise to increased risks of material misstatements than the broader issuer population? Please provide any data you have to support your views.

Relative to total transactions for EGCs, we feel that there is a high probability that related party transactions or significant unusual transactions are more common in EGCs than in the broader issuer population. With respect to financial relationships and transactions with executive officers at EGCs, we believe the greater amount of control and influence exerted by officers in smaller organizations results in a greater amount of risk of material misstatement than in the broader issuer population.

Question 37: Are there other characteristics of EGCs (e.g., the size of the company and the length of time it has been a reporting company) that the Board should consider?

The one characteristic we believe the Board should consider is the likelihood of more pervasive overlap of the Board of Directors and management in EGCs.

Question 38: Would EGCs benefit more or less from the repropoed standard and amendments than other companies? Would inherently riskier EGCs receive benefits relative to other EGCs because the market cannot observe certain undisclosed related party risks that the new standards would otherwise make available through better compliance by management with its disclosure obligations?

In general, we believe the benefits will be similar between EGCs and other companies. However, we do see a possibility for more benefits to EGCs in those EGCs where related party and unusual transactions are more prevalent or represent a greater percentage of total transactions.

Question 39: What costs would firms incur when implementing the repropoed standard and amendments for audits of EGCs? How will those costs differ from the costs for the larger issuer population? Which of the costs are initial or recurring or both?

Other than implementation costs of complying with the new standard, we don't see any significant increases in other costs.

Question 40: Are there particular costs, benefits, or burdens applicable to EGCs that the Board should consider when determining whether to recommend to the Commission the application of the repropoed standard and amendments to audits of EGCs? For example, do EGCs share the same risk of material misstatement of the financial statements as the broader issuer population due to relationships and transactions with related parties?

Beyond the discussions currently included in the repropoed standard, we are not aware of any particular costs, benefits or burdens applicable to EGCs that the Board should consider. We believe the risks of material misstatement for EGCs in the areas of related party and unusual transactions are consistent with the broader issuer population. A slight potential for a higher risk of material misstatements for EGCs might result from maintaining a less comprehensive set of internal controls. This, of course, is due to the generally smaller size of the entity. If EGCs are required to implement additional internal controls, then increased costs could occur. However, we believe any cost increase in this area would be offset by the potential benefits of the added controls.

Question 41: Regardless of the applicability of the repropoed standard and amendments to audits of EGCs, would an audit firm perform the same procedures for an audit of an EGC and an audit of a non-EGC to ensure a consistency in the training, methodology, and tools in their audit practice or to respond to risks of material misstatement with similar approaches?

We believe the procedure would be substantially the same. The only difference might be the extent of such procedures due to the relative size of the entities involved.

Question 42: Would the implementation and training costs that a firm would incur be dependent upon whether the standard is applicable to EGCs? Would such costs generally be fixed once required to be implemented, regardless of whether the standard is applicable to audits of EGCs?

We believe in a vast majority of the cases, the implementation and training costs that a firm would incur would not depend on whether the standard is applicable to EGCs. Once a firm has implemented training for non-EGCs, there should be little or no additional costs to apply the guidance in the standard to EGCs. The training costs are primarily fixed costs.

Question 43: For audits of both EGCs and other SEC registrants, would it be more costly to not apply the repropoed standard and amendments to audits of EGCs because the firms would need to develop and maintain two audit methodologies?

We believe it would be more costly.

Question 44: Are there any other considerations relating to competition, efficiency, and capital formation that the Board should take into account when determining whether to recommend to the Commission the application of the repropoed standard and amendments to audits of EGCs?

We are unaware of any other considerations that the Board should examine in this area. We believe Appendix 4, Part IV provides sufficient discussion of the considerations relating to EGCs.

Question 45: Are the repropoed standard and repropoed amendments appropriate for audits of brokers and dealers? Why or why not?

We believe the repropoed standard and repropoed amendments for audits of brokers and dealers are appropriate.

Question 46: Are there additional procedures specific to audits of brokers and dealers that should be included in the repropoed standard and repropoed amendments?

We have no suggestions regarding additional procedures specific to audits of brokers and dealers that should be included in the repropoed standard and repropoed amendments.

Question 47: Should auditors of brokers and dealers be required to evaluate whether a broker's or dealer's relationships and transactions with its related parties impact that broker's or dealer's compliance with its regulatory requirements? Why or why not?

We are in agreement with the requirement for auditors to evaluate whether a broker's or dealer's relationships and transactions with its related parties impact that broker's or dealer's compliance with its regulatory requirements.

Question 48: Should the auditor's communications to audit committees included in the repropoed standard be applicable to audits of brokers and dealers? If not, provide examples and explanations for why the communication requirement should not be applicable for audits of brokers and dealers.

We believe an auditor's communications to audit committees included in the repropoed standard should be applicable to audits of brokers and dealers.

Question 49: Is the Board's anticipated effective date appropriate? Why or why not?

See answer to Question 50.

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Question 50: Does the new proposed effective date allow sufficient time for firms to incorporate the new requirements into their methodology, guidance and audit programs, and training staff? Why or why not?

We believe that the effective date is appropriate and will allow sufficient time for firms to incorporate the new requirements into their methodologies, guidance, audit programs, and staff training provided the final standard is issued prior to September 30, 2013. Issuing the final standard later than that date will serve as a hardship on firms transitioning to the new requirements.

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

Sincerely,

A handwritten signature in cursive script that reads "Sandra K. Brown".

Sandra K. Brown, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants