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July 3, 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**

Deloitte & Touche LLP (“D&T”) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its *Proposed Auditing Standard — Related Parties* (the “reproposed standard”), *Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards* (the “reproposed amendments”) (collectively “the reproposal”), PCAOB Release No. 2013-004; PCAOB Rulemaking Docket Matter No. 038 (May 7, 2013).

**OVERALL COMMENTS**

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We support the Board’s efforts to strengthen audit quality by enhancing the auditing standards related to the auditor’s consideration and/or evaluation of:

- A company’s identification of, accounting for, and disclosure of its related parties and its relationships and transactions with related parties,
- Significant unusual transactions, and
- The effects of certain executive compensation arrangements on risks of material misstatement.

In responding to the Board’s request for comments on the reproposal, we offer the following overall observations:

**Costs and Benefits.** In the Release, the Board is soliciting feedback on the costs and benefits of the reproposal and whether the reproposal should be applicable to emerging growth companies (EGCs) and brokers and dealers. We agree with the Board that investors will benefit from the improved audit quality

that may be expected to result from the auditor's implementation of the reproposal. We also believe that to properly apply the requirements of the reproposal and to realize the anticipated benefits, there will be some increased costs in terms of the incremental audit effort that will be necessary.

While precise quantification of the costs is not possible without field testing the proposed standard, in our professional judgment, we would expect that a final standard would produce benefits to the capital markets in excess of the corresponding costs. We also believe a few minor modifications to the reproposal to improve the ability of the auditor to tailor the necessary procedures based on the auditor's identification and assessment of the related risks of material misstatement (as outlined in the remainder of this letter) would be effective at alleviating some of these costs, while still achieving the intended benefits.

**Applicability to Emerging Growth Companies and Brokers and Dealers.** We do not believe that the classification of an issuer as an EGC will necessarily correlate strongly with the amount of incremental audit work required to properly apply the reproposal, because each issuer will have its own unique facts and circumstances. We expect that costs would vary by audit depending on (1) the number and complexity of an issuer's related parties and relationships and transactions with related parties, (2) the number and complexity of the significant unusual transactions entered into by the issuer, and (3) the number of executive officers of the issuer and the complexity of the compensation arrangements with those executive officers. EGCs may actually, in certain instances, be more prone than other companies to enter into complex financing or other arrangements which give rise to additional related parties or more complex transactions with such related parties. EGCs might also have more complex arrangements with executive officers.

Based on the above, we believe that the risks of material misstatement upon which the proposal is focused are also present in EGCs and brokers and dealers. Accordingly, we do not believe there is a compelling basis for exempting audits of EGCs or audits of brokers and dealers from the requirements of the reproposal; we believe investors and other financial statement users of these companies would benefit from the additional audit procedures on the transactions and arrangements within the scope of the reproposal.

**Requirements and Related Implementation Guidance.** In Appendix 4 of PCAOB Release No. 2013-004, the Board provides additional discussion and background information regarding certain of the requirements in the repropose standard and amendments, and discusses the basis for the reproposal. In some cases, the discussion in Appendix 4 clarifies a requirement, makes the intended purpose more readily apparent, or provides useful implementation guidance. Such guidance assists the auditor in assessing risks of material misstatement, linking procedures to those risks, and scaling procedures as necessary for the particular circumstances.

In our May 31, 2012, letter on the original proposal,<sup>1</sup> we recommended that the Board consider including additional information from Appendix 4 into the final standard and conforming amendments to provide additional clarity and implementation guidance. We commend the Board on the additional clarity that has

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<sup>1</sup> PCAOB Release No. 2012-001, *Proposed Auditing Standard — Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards.*

already been reflected in the proposed standard. We also believe there are certain other places where additional clarity could be achieved by incorporating into the final standard and conforming amendments, wherever possible, the implementation guidance included in Appendix 4. Detailed below are specific recommendations in this regard.

## **RELATED PARTIES PROPOSED AUDITING STANDARD**

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**Evaluating Company Identification of Related Parties and Corresponding Transactions.** We support the Board’s decision to provide “examples of information and sources of information that could indicate that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist” as an appendix to the repropoed standard, as this will likely help an auditor to identify such information. A note to paragraph 14 of the repropoed standard refers the auditor to this appendix (Appendix A). However, it is not clear whether the auditor would be required, under the repropoal, to search for and evaluate each of the examples listed in Appendix A in conjunction with evaluating whether the company has properly identified its related parties and relationships and corresponding transactions, in particular as it relates to evaluating the completeness and accuracy of the information provided by the company. We observe that the guidance on page A4-39 is helpful in explaining that the intention is not to “require the auditor to perform procedures with respect to each item listed in Appendix A.” Furthermore, the guidance on page A4-44 is helpful in clarifying that Appendix A “was included to assist the auditor’s identification of related parties or relationships or transaction with related parties previously undisclosed to the auditor” and that “the information and sources relevant to a particular audit would depend on the facts and circumstances of the audit, and thus, not all of the information or sources of information in Appendix A would need to be considered in every audit.” Accordingly, we recommend that the Board incorporate the guidance from A4-39 and A4-44 into the final standard.

**Addressing Previously Undisclosed Related Parties or Related-Party Relationships and Transactions.** Paragraphs 15 and 16 of the repropoed standard address the auditor’s responsibilities with respect to previously undisclosed related parties or related-party relationships or transactions. We support the need for heightened scrutiny and increased audit attention to identify, assess, and respond to risks of material misstatement related to undisclosed related parties or related-party relationships and transactions; however, we believe paragraphs 15 and 16 could provide for greater flexibility and scalability to permit appropriate use of auditor judgment in assessing risk and designing and performing responsive audit procedures, consistent with the objectives of the Board’s risk assessment standards. Specifically our observations include the following:

- Paragraph 15 requires procedures in addition to inquiry to determine whether previously undisclosed related parties or relationships or transactions exist. Footnote 14 to paragraph 14 requires the auditor to do “more than assessing the process used by the company,” including requiring “the auditor to perform procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company.” Accordingly, it is not clear what the incremental procedures referred to in paragraph 15 are intended to be, as compared to the procedures already contemplated by the footnote to paragraph 14. The Board’s expectations of the auditor would be more clear if the guidance related to paragraph 14 indicated that, if the auditor believes a greater risk of previously undisclosed

related-party transactions or related-party relationships or transactions exist, the auditor would need to perform more extensive procedures to address the requirement in paragraph 14. Paragraph 15 could then be deleted as the requirement would be included in paragraph 14. Alternatively, paragraph 15 could be clarified to describe the incremental procedures sought by the Board.

- Paragraph 16 includes procedures to perform when previously undisclosed related parties or related-party relationships or transactions exist. We understand the Board’s intent for a basic level of procedures to be performed in all these situations; however, we believe there may be circumstances in which the auditor’s performance of the basic level of procedures (and preparing the related audit documentation) might not be warranted based on the specific facts and circumstances and the auditor’s risk assessment — for example, when the situation is clearly unintentional and inconsequential. We recommend that parts a through c of paragraph 16 be revised to allow for the auditor to make the judgment that the matter is clearly trivial<sup>2</sup>; and, therefore, no further action is needed.

## **PROPOSED AMENDMENTS TO OTHER AUDITING STANDARDS**

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**Financial Relationships and Transactions with Executive Officers and Senior Management.** We continue to support the Board’s efforts to strengthen audit quality by enhancing the existing requirements relating to understanding financial relationships with senior management. Appendix 4-81 states that “the proposed amendments would not have required the auditor to evaluate management’s identification of its ‘executive officers,’ for other regulatory and SEC filing purposes.” We believe additional clarity can be achieved by stating within the final standard that the auditor would not be responsible for auditing the completeness of the executive officer listing.

## **OTHER MATTERS**

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**Effect on other PCAOB Auditing Standards.** We support the PCAOB’s recent initiative to develop a new framework<sup>3</sup> for the reorganization of its auditing standards. In light of that effort, the Board may consider whether certain aspects of the repropoed standard and the repropoed amendments might be organized differently. For example, the Board may consider whether the requirements in the proposed standard relating to communications with the audit committee about related-party matters might be more appropriately finalized as conforming amendments to PCAOB Auditing Standard No. 16, *Communications with Audit Committees*, in order to keep requirements related to such communications in one place within the proposed reorganization. Furthermore, we recommend that the Board assess the effect of the standard on other PCAOB guidance including PCAOB Staff Audit Practice Alert No. 5, *Auditor Considerations Regarding Significant Unusual Transactions*, and PCAOB Staff Audit Practice Alert No. 8, *Audit Risks in Certain Emerging Markets*, including determining whether such guidance should be amended, updated, or superseded as a result of finalizing the repropoed standard and other repropoed amendments.

\* \* \*

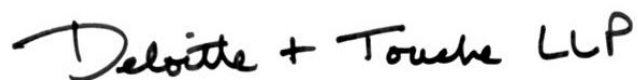
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<sup>2</sup> PCAOB Auditing Standard No. 14 paragraph 10.

<sup>3</sup> *Proposed Framework for Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Auditing Standards and Rules*, PCAOB Release No. 2013-002; PCAOB Rulemaking Docket Matter No. 040 (March 26, 2013).

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential impacts. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the proposed standard is evaluated and changes are considered. If you have any questions or would like to discuss these issues further, please contact William Platt at 203-761-3755 or Megan Zietsman at 203-761-3142.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

cc: James R. Doty, PCAOB Chairman  
Lewis H. Ferguson, PCAOB Member  
Jeanette M. Franzel, PCAOB Member  
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