

July 2, 2013

Phoebe W. Brown
Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Submitted via e-mail to comments@pcaobus.org

**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 Release No. 2013-004, Rulemaking Docket Matter No. 038)

Dear Madam Secretary:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to provide comments on the above captioned release.

The NYSSCPA's Auditing Standards and SEC Committees deliberated the release, and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (212) 755-4482, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



J. Michael Kirkland
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**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 RELEASE NO. 2013-004
PCAOB RULEMAKING DOCKET MATTER NO. 038**

July 2, 2013

Principal Drafters

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Jan C. Herringer
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From the SEC Committee:

Tammy E. Straus

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New York State Society of Certified Public Accountants

Comments on Proposed Auditing Standard – Related Parties, Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions, and Other Proposed Amendments to PCAOB Auditing Standards

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB, the Board) release, *Proposed Auditing Standard – Related Parties* (Proposed Standard), *Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions* (Proposed Amendments), and *Other Proposed Amendments to PCAOB Auditing Standards* (Other Proposed Amendments) (the Release). We support the Board's initiative to strengthen the existing public company auditing standards and believe that the improvements being proposed in the Release with respect to related parties and significant unusual transactions will have a positive impact on audit quality.

We appreciate the Board's consideration of our comments, as set out in our previous letter dated May 17, 2012, on the initial PCAOB proposal on the topic of related parties and significant unusual transactions, and have the following additional comments for the Board's consideration.

Responsibility of the Auditor to Evaluate the Company's Identification of Related Parties

We support the change from the previously proposed standard that focuses in the first instance on the responsibility the company has with respect to the preparation of the financial statements as specifically delineated in the identification of the company's related parties. We support the proposal to include a statement by management within the management representation letter that the company has provided the names of all related parties and all relationships and transactions with related parties.

We note that the Proposed Standard requires an auditor to perform specific procedures to evaluate whether a company has properly identified its related parties, such as evaluating information obtained from identifying and evaluating unusual transactions and obtaining an understanding of a company's financial relationships and transactions with its executive officers which could indicate that relationships or transactions with related parties previously undisclosed to the auditor may exist. In that regard, paragraph A2 of Appendix A of Appendix 1 of the Proposed Standard includes examples of information that could indicate that such relationships or transactions with related parties might exist, and paragraph A3 provides examples of sources of information that could indicate these relationships or transactions might exist. While the discussion on pages A4-39 to A4-40 of Appendix 4 of the Proposed Standard provides some commentary about how these Appendices are to be used, we believe moving that explanatory information into the Proposed Standard would help clarify how Appendix A is to be used and make it easier for an auditor to find the applicable interpretive information.

Although we acknowledge that an auditor is responsible for obtaining reasonable assurance to support the assertions within the financial statements, including those relating to the accuracy and completeness of related parties and related party transactions and that current guidance requires an auditor to perform procedures to address these assertions, we are concerned that the requirement included within footnote 14 to paragraph 14 of Appendix 1 of the Proposed Standard might imply that an auditor is responsible for identifying all related parties and transactions without limitation. We believe that additional context should be provided, similar to that provided in paragraphs 2 and 6-7 of International Standard on Auditing (ISA) 550, *Related Parties*, which explains that the nature of related party relationships and related party transactions may, in some circumstances, result in higher risks of material misstatement than non-related party transactions given the potential for undisclosed related party relationships and transactions. The ISA further explains that related party relationships might present a greater opportunity for collusion, concealment or manipulation by management and, therefore, an auditor's ability to detect material misstatements may be impacted even though the audit is properly planned and performed.

Communications with Audit Committees

We believe effective and timely communication with audit committees is an important and integral aspect of the performance of a quality audit, and, for this reason, we believe that communication is most effective when an auditor takes care to communicate those matters most important to the audit committee's oversight responsibilities, rather than discussing a checklist of matters that may not be significant to their oversight role. Therefore, we suggest revising paragraph 19. a. of Appendix 1 as follows: "The identification of *significant* related parties or relationships or transactions with related parties that were previously undisclosed to the auditor." (Added text is included in bold italics).

Applicability to Emerging Growth Companies

We recognize that the Proposed Standard and Proposed Amendments are designed to address critical areas that warrant heightened scrutiny. Given that Emerging Growth Companies (EGC), as defined in Section 3(a)(80) of the Securities Exchange Act, are likely to have less formal processes for dealing with related party relationships and transactions, and that they may have more extensive related party relationships and transactions, we support the applicability of the Proposed Standard and Proposed Amendments to such entities.

Audits of Brokers and Dealers in Securities

The nature of the broker and dealer industry is such that there are often numerous related party transactions, which suggests that it would be appropriate for the Proposed Standard and Proposed Amendments to apply to these audits. Further, we do not believe that an exception is necessary with respect to audit committee communications for the non-issuer brokers and dealers as the definition of an audit committee is sufficiently broad within Auditing Standard No. 16, *Communications with Audit Committees*, to accommodate the governance structure of non-issuer brokers and dealers.