

Reproposed Auditing Standard on Related Parties and Related Amendments to PCAOB Auditing Standards

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Disclaimer

- The views expressed by each of the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.

Overview of the Reproposal

- Issued for public comment on May 7, 2013*
- Includes:
 - Reproposed auditing standard, *Related Parties*
 - Reproposed amendments regarding significant unusual transactions
 - Other reproposed amendments to PCAOB auditing standards
- Discusses economic considerations, including audits of Emerging Growth Companies (EGCs)
- Would supersede AU sec. 334, *Related Parties*
- Comment period ends on July 8, 2013

* An original proposal was issued for public comment on February 28, 2012. The Board received 37 comment letters and discussed the proposal at the May 17, 2012 SAG meeting.

Reproposed Auditing Standard – Related Parties

- The reproposed standard would strengthen existing audit procedures for identifying, assessing, and responding to the risks of material misstatement associated with a company's related party transactions.
- Among other things, the reproposed standard would require that the auditor:
 - Perform procedures to obtain an understanding of the company's relationships and transactions with its related parties
 - Perform procedures for each related party transaction that is either required to be disclosed in the financial statements or determined to be a significant risk
 - Perform procedures if the auditor determines that a related party or relationship or transaction with a related party previously undisclosed to the auditor exists
 - Evaluate whether the company has properly identified its related parties and relationships and transactions with related parties
 - Communicate to the audit committee the auditor's evaluation of the company's identification of, accounting for, and disclosure of its relationships and transactions with related parties

Reproposed Auditing Standard – Related Parties

- Key changes from the proposed standard:
 - Clarifying the relationship with the risk assessment standards
 - Clarifying the auditor's responsibility to evaluate whether the company has properly identified its related parties
 - Allowing additional auditor judgment

Reproposed Amendments Regarding Significant Unusual Transactions

- The reproposed amendments to AU sec. 316, *Consideration of Fraud in a Financial Statement Audit*, and other PCAOB auditing standards would strengthen the auditor's evaluation of significant unusual transactions.
- Among other things, the reproposed amendments would:
 - Require the auditor to perform specific procedures to identify significant unusual transactions
 - Require the auditor to perform specific procedures to obtain an understanding of the business purpose (or the lack thereof) of identified significant unusual transactions
 - Enhance the auditor's evaluation of the business purpose of significant unusual transactions
 - Require the auditor to evaluate whether significant unusual transactions have been appropriately accounted for and adequately disclosed

Reproposed Amendments Regarding Significant Unusual Transactions

- Key changes from the proposed amendments:
 - Enhance the linkage between the reproposed standard and the reproposed amendments to better show the complementary nature of the auditor's efforts regarding significant unusual transactions and a company's related parties

Other Reproposed Amendments to PCAOB Auditing Standards

- The other repropose amendments would also include other new requirements that complement the repropose standard and amendments and conform other PCAOB auditing standards to the repropose standard and amendments.
- Among other things, the other repropose amendments to PCAOB auditing standards would:
 - Require the auditor to perform specific procedures to obtain an understanding of the company's financial relationships and transactions with its executive officers as part of the auditor's risk assessment process;
 - Require the auditor to obtain representations from management that there are no side agreements or other arrangements (either written or oral) undisclosed to the auditor; and
 - Emphasize the auditor's existing responsibilities to communicate possible fraud to management, the audit committee and, under certain conditions, the SEC and others.

SAG Member Discussion

SAG members are invited to discuss the repropose standard and amendments, including the questions raised in the repropose release.