

July 2, 2013

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 038

McGladrey LLP appreciates the opportunity to offer our comments on the PCAOB's May 7, 2013 *Proposed Auditing Standard – Related Parties; Proposed Amendments to Certain PCAOB Auditing Standards Regarding Significant Unusual Transactions; and Other Proposed Amendments to PCAOB Auditing Standards*. We support the PCAOB's repropose auditing standard and related repropose amendments to other auditing standards intended to strengthen existing audit procedures for identifying, assessing, and responding to the risks of material misstatement associated with a company's related party transactions. However, we have the following comments related to specific paragraphs of the reproposal that we believe should be clarified or modified.

Objective

We believe the objective in paragraph 2 of the repropose standard should be revised to clarify that the auditor is not required to determine whether *related parties* have been properly accounted for. Rather, the auditor is required to determine whether *relationships and transactions with related parties* have been properly accounted for. We therefore suggest paragraph 2 be clarified to read as follows (proposed additions are shown in bold font):

The objective of the auditor is to obtain sufficient appropriate audit evidence to determine whether related parties **have been identified** and relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.

Performing Risk Assessment Procedures to Obtain an Understanding of the Company's Relationships and Transactions with Its Related Parties

Because the procedures in paragraph 3 of the repropose standard require the auditor to obtain an understanding of the company's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements in conjunction with performing risk assessment procedures in accordance with PCAOB Auditing Standard (AS) 12, *Identifying and Assessing Risks of Material Misstatement*, we believe the requirements in paragraph 3 of the repropose standard should be incorporated into AS 12 so that all the requirements related to identification and assessment of risks of material misstatement would be located in a single standard. The repropose standard on related parties could then include a cross-reference to the requirements in AS 12.

In addition, we recommend the word "Note:" be removed from the second paragraph of paragraph 3 because we are concerned that auditors will not readily identify the requirement contained in this "Note." We recommend placing all requirements in the body of the standard and using "Notes" to clarify how auditors might implement the requirements.

Evaluating Whether the Company Has Properly Identified Its Related Parties and Relationships and Transactions with Related Parties

Footnote 14 includes requirements, which we believe should be explicitly stated in paragraph 14 as follows (proposed deletions are struck through, and proposed additions are shown in bold font):

“The auditor should evaluate whether the company has properly identified its related parties and relationships and transactions with related parties.^{14/} ~~In making that evaluation, the auditor should take~~ **Evaluating whether a company has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the company. This evaluation requires 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, taking** into account information gathered during the audit.^{15/} As part of ~~that~~ **this** evaluation, the auditor should read minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.”

In addition, the Note in paragraph 14 makes reference to Appendix A, which contains 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. This reference, coupled with the requirement in the first sentence of paragraph 14, could create the impression that the auditor is required to evaluate all of the information and sources of information in Appendix A to identify undisclosed related parties or relationships or transactions with related parties. As discussed on page A4-39 of the reproposal, the repropose standard is not intended to require the auditor to perform procedures with respect to each source of information referenced in Appendix A. To align the auditor’s responsibilities with respect to the information and sources of information in Appendix A with the discussion on page A4-39 of the reproposal, we believe the following sentence should be added at the end of the Note in paragraph 14:

Appendix A is not intended to represent a comprehensive listing of information or sources of information that could indicate that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist, nor is the auditor required to evaluate all of the information or sources of information in Appendix A to identify undisclosed related parties or relationships or transactions with related parties.

As stated, the procedures enumerated in paragraph 16 would be required to be performed with respect to *all* transactions with a related party previously undisclosed to the auditor – even those transactions that are clearly trivial and would not merit the performance of such procedures based on the auditor’s risk assessment. We suggest the PCAOB clarify whether the procedures in paragraph 16 are required to be applied to related party transactions that are deemed by the auditor to be clearly trivial, as described in AS 14, *Evaluating Audit Results*.

Communications with the Audit Committee

We believe all required auditor communications with the audit committee should be codified in one standard. Therefore, we suggest the requirements in paragraph 19 of the repropose standard be moved to AS 16, *Communications with Audit Committees*. The repropose standard on related parties could then include a cross-reference to the requirements in AS 16.

In addition, paragraph 19.a. requires the auditor to communicate to the audit committee the identification of related parties or relationships or transactions with related parties that were previously undisclosed to the auditor. This could be interpreted as requiring communication of *all* relationships and transactions with related parties that were previously undisclosed to the auditor. We recommend inserting the word “significant” in front of the word “transactions” to align requirement “a.” with the remaining requirements of paragraph 19.

Scalability

Compliance with the repropoed standard begins with basic required procedures, such as obtaining an understanding of the company's process and performing inquiries, which are then supplemented by more in-depth procedures as needed. Therefore, we believe the repropoed standard is scalable and allows the auditor to focus on the significant risks, regardless of the size or nature (e.g., broker dealer or emerging growth company) of the issuer.

Effective Date

The repropoal states the repropoed standard and amendments would be effective, subject to approval by the SEC, for audits of financial statements for fiscal years beginning on or after December 15, 2013. Audit firms will need sufficient time to incorporate the new requirements of the repropoed standard and amendments in audit methodologies, programs, and training. Therefore, we believe the proposed date is reasonable as long as the standard is finalized by September 30, 2013.

We appreciate this opportunity to provide feedback on the repropoal and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to John Keyser, National Director of Assurance Services, at 702-759-4046.

Sincerely,

A handwritten signature in cursive script that reads "McGladrey LLP".

McGladrey LLP