



Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington DC 20006-2803
USA

25 June 2013

Ref.: AUD/AKI/HBL/NRO

Dear Sir or Madam,

Re: FEE Comments on PCAOB Rulemaking Docket Matter No. 038 - Proposed Auditing Standard on Related Parties - Proposed Amendments to Certain PCAOB Auditing Standards regarding Significant Unusual Transactions and Other Proposed Amendments to PCAOB Auditing Standards

FEE¹ (the Federation of European Accountants) is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 038 - Proposed Auditing Standard on Related Parties -

¹ FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

Proposed Amendments to Certain PCAOB Auditing Standards regarding Significant Unusual Transactions and Other Proposed Amendments to PCAOB Auditing Standards.

1. Issues taken on board in the reproposal

FEE already commented on the Proposal made in 2012 and we are now pleased to notice that some of our main concerns have been tackled, namely:

- ✓ FEE previously suggested that it would be appropriate to highlight throughout the standard that the **responsibility to identify related parties** rests with the company and not with the auditor. Therefore, it is not appropriate to require the auditor to “identify” related parties. The re-proposal includes changes addressing this significant issue.
- ✓ However, FEE notes a similar issue with regard to **significant unusual transactions**. Indeed, the discussion in Appendix 4 implies that the auditor is required to “identify” significant unusual transactions, especially in the re-proposed wording (new Note to AU 316.66). FEE notes that the Board recognises that the relevant procedures (inquiring of management and others; understanding controls relating to significant unusual transactions; and, taking into account other information obtained during the audit) are performed as part of the auditor’s risk assessment process rather than to enable the auditor to perform an initial identification of such transactions, which is the role of management (Ref: Page A4-61 as well as the changes to AS 12). Thus FEE believes this is a matter of misaligned wording, and suggests this be rectified.
- ✓ FEE previously suggested that a true **two-way communication** between the **auditor** and the **audit committee** regarding related parties should be further highlighted. FEE also recommended that due consideration should be given to a global solution on the matter, in light of the current European debate on strengthening the role of audit committees and the communication between the auditor and the audit committee. We are delighted to share some work we recently did on this subject matter:
 - A Discussion Paper on ‘The Functioning of Audit Committees’² that FEE published in July 2012; as well as
 - ‘Global Observations on the Role of the Audit Committee - A Summary of Roundtable Discussions’³ organised by FEE, the CAQ and ICAA
 - Highlights of a Roundtable we organised in February 2013 on ‘How to improve the functioning of audit committees further’⁴

² http://www.fee.be/index.php?option=com_content&view=article&id=519&Itemid=106&lang=en

³ http://www.fee.be/index.php?option=com_content&view=article&id=1330&Itemid=106&lang=en

⁴ http://www.fee.be/index.php?option=com_content&view=article&id=1295&Itemid=106&lang=en

2. Remaining issues

Our general comments on the remaining issues re the PCAOB proposed standard that are relevant from a European or international perspective are set out below and can be summarised as follows:

- ✓ FEE previously suggested that it would be appropriate to explicitly include **fraud risk** in the objective of an audit standard on related parties. Whilst recognising that the PCAOB does have a separate fraud standard, FEE stresses that the very limited mention of fraud (not significantly changed from the 2012 proposal) in the re-proposal is a mismatch with the amount of coverage in the accompanying material that lengthily deals for instance with recent fraud cases. At the very least, it would be helpful for practitioners if material would be included in this standard – currently there is just one note referencing AU 316.
- ✓ In general, FEE believes that **alignment in auditing standards worldwide**, to the maximum degree possible, is beneficial for capital market participants with cross-border interests and global activities. The new proposed standard on related parties introduces a closer alignment with the equivalent ISA issued by the IAASB. However, differences remain as displayed in the comparative analysis. Given that related parties often have cross-border elements in large companies, FEE believes that differences in audit standards regarding the audit of related parties should be kept to a minimum with differences only arising from specific national requirements.

3. Further considerations to international alignment

With regard to **international alignment**, we would like to emphasise that this alignment of auditing standards enhances the quality of audits based on globally accepted auditing standards at national level, including the acceptance of audit reports beyond home jurisdictions. In addition, aligning requirements worldwide regarding communication with audit committees facilitates the participation of non-national members in audit committees which is a corporate governance consideration that multinational companies face.

The new proposed standard on related parties introduces a closer alignment with the equivalent ISA issued by the IAASB. In this context, FEE welcomes the comparison between the proposed standard and the ISAs included in Appendix 5. Currently, this appendix is mainly descriptive with references to the requirements in each set of standards. Although the comparison with equivalent ISAs is useful, it would be beneficial to users if the PCAOB provided detailed comments as to why the PCAOB believes that specific differences remain necessary. Given that related parties often have cross-border elements in large companies, FEE believes that differences in audit standards regarding the audit of related parties should be kept to a minimum with differences only arising from specific national requirements.

In future projects, increased transparency regarding the standard setting process would facilitate those commenting on the proposals performing an analysis of the proposals as well as the application of the PCAOB audit standards by auditors of multinational companies that normally

operate in an ISA environment. This would altogether lead to higher quality standards. Such transparency could be achieved by providing mark-up texts of the proposals and through providing further arguments as to why the amendments proposed would lead to higher audit quality. In this context, it should be borne in mind that higher audit quality is only achieved through changing of behaviour by auditors, which is not necessarily achieved by setting standards, but through their application.

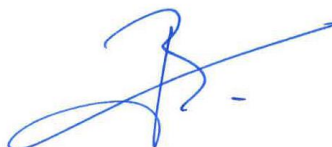
Appendix 4 is quite extensive and could benefit from having more concise conclusions that clearly set out the reasons for the decision to amend a specific provision. With these amendments to Appendix 4, FEE recommends that it is published as a “Basis for Conclusions” or, where appropriate guidance could be added to the text of the Standard. Both Basis for Conclusions and explanatory guidance is found very useful in practice, as acknowledged by other standard setters, such as the IASB and the IAASB.

For further information on this FEE letter, please contact Hilde Blomme, Deputy Chief Executive at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert, Project Manager at +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE Secretariat.

Yours sincerely,



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President



Olivier Boutellis-Taft
Chief Executive