

**GILBERT F. VIETS**  
**2105 North Meridian Street, Suite 400**  
**Indianapolis, Indiana 46202**

May 30, 2012

**Mr. J. Gordon Seymour**  
**Secretary**  
**Public Company Accounting Oversight Board**  
**1666 K Street, N.W.**  
**Washington, D.C. 20006-2803**

**Docket 038: Proposed Auditing Standard on Related Parties and Related Amendments to PCAOB Auditing Standards**

Dear Members of the Board and Mr. Seymour:

Thank you for addressing the audit standards concerning related parties. Investors who make their decisions using audited information not transparent often make decisions that would have been different if they had been informed about obscured relationships. Your search for truth is helpful.

I believe you can provide investors and auditors with additional support in dealing with these relationships that, in some cases, cross the lines of integrity, moral values and the law. Thus, I offer four suggestions:

- 1. All audit contracts between auditors and Registrants should include language concerning responsibilities for related parties, jointly acknowledging responsibility for investor awareness.** Such language would reinforce to the company and the auditor the significance of related party activity that may produce effects about which investors need to know.
- 2. The standard should address the responsibility of Registered Public Accounting firms who provide services to non registrants where the non registrant is related to a Registrant.** In many cases, the related party in a transaction with a Registrant is audited by a Registered Public Accounting firm. The business purpose of the relationship, or lack thereof, is often more obvious to the second accounting firm than to the auditor of the Registrant. The bankruptcy examiner's reports for Enron revealed extensive involvement of major accounting firms in the affairs of Enron's off book entities, providing audit, valuation, tax and other services. I believe there are many similar situations. The new Auditing Standard is an opportunity to make clear to all Registered Public Accounting firms that they are part of a system that must appropriately address suspicious activities involving a public company. Any accounting firm that is part of the

community of Registered Public Accounting Firms should not knowingly facilitate cloaked transactions, hidden in non public entities for no business purpose other than to conceal activity of a Registrant.

- 3. *The standard should not blur the distinction between a “related party” and a “co-conspirator.”***  
Appendix A, *“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,”* includes several examples that are commonly collusive, but not necessarily what we think of as related party transactions, unless your intent is to equate all collusive activity as being with a related party. “Bill and Hold” is one example with which the other party is frequently a “co-conspirator,” but not necessarily a “related party.” Certainly all of these arrangements are proper concerns for auditors and investors, and it is possible that little is lost in mingling terms and examples; but interchangeability of the terms and their examples can lead to confusion and debate about what is really intended. Here, I suggest a final review before adoption to make the standard as concise and clear as possible.
- 4. *The standard should further distinguish the term “in a timely manner” when it refers to Communications with the Audit Committee.*** The Note to paragraph 20 says: “...in a timely manner and prior to the issuance of the auditor's report...” The language of the draft proposal is too soft and is an argument for letting the information linger until “all the facts are in,” up to the point when the audit report is released. Audit committees have a significant role to play and responsibility for getting to the bottom of such issues as soon as possible. I suggest the standard include the language “...as soon as the auditor determines there may be an undisclosed relationship...” to clearly distinguish the timely manner standard from “...prior to the issuance of the auditor’s report...”

Thank you for considering these suggestions. If you have questions, please call me at 317 513 5407.

My background for offering these comments include many years as an audit partner in a major firm, teaching auditing at a major university for two years, serving as a corporate CFO, board member and audit committee chair at various times for public entities.

Sincerely,

Gilbert F. Viets

317 513 5407  
[gilviets@aol.com](mailto:gilviets@aol.com)