
PCAOB Reproposes Auditing Standard for Related Party Transactions and Other Matters

MAY 13, 2013

On May 7, the Public Company Accounting Oversight Board issued a [proposed new auditing standard and amendments to existing standards](#) intended to strengthen the requirements for audit steps regarding related party transactions, significant unusual transactions, and financial relationships and transactions with executive officers. The PCAOB previously issued a proposal covering these matters in February 2012. The PCAOB's new proposal reflects its view that the three covered areas pose higher than normal risk of material misstatement and an increased risk of fraud and that enhanced standards are therefore warranted. If adopted and approved by the SEC, the new standards would be effective for fiscal years beginning on or after December 15, 2013.

Among the notable aspects of the new proposal:

- The PCAOB responds to concerns that the original proposal would have required the auditor to make substantive evaluations about a company's executive compensation arrangements. The PCAOB emphasizes that the new standard would require the auditor, as part of its risk assessment process, to consider incentives or pressures for the company to achieve a particular financial position or operating result, but would not require the auditor to assess the appropriateness or reasonableness of a company's compensation arrangements with its executive officers.
- The new auditing standard would specify required communications with the audit committee about related parties, including required inquiries of the audit committee or its chair regarding related party relationships or transactions and specified disclosures by the auditor to the committee about the results of its audit of related party matters. The PCAOB states that these requirements would "complement" the new communications requirements for unusual transactions in Auditing Standard 16.
- Consistent with recent PCAOB undertakings to engage in more economic analysis, the PCAOB release includes a discussion of potential economic implications of the proposed standards, including anticipated benefits to investors and potential increased costs as a result of the additional procedures that would be required. The release requests comments on the economic impact of the standards generally, as well as in response to the specific requirements for application of the new or amended standards to emerging

growth companies under the JOBS Act.