January 9, 2012

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

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the Proposed Rule on Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2 (Docket Matter No. 29) dated October 11, 2011. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

The Board is soliciting comments on a series of amendment to PCAOB standards that would:

- Require the audit report to disclose the name of the Engagement Partner responsible for the most recent period's audit,
- Require registered firms to disclose in their PCAOB annual report on Form 2 the name of the engagement partner for each audit report already required to be reported on the form, and
- Require disclosure in the audit report about other persons and independent public accounting firms that took part in the most recent period's audit.

First and foremost, we agree with the Board's goal and intentions to provide additional transparency to investors about the audit process requiring only modest changes to the audit report. There is also an underlying assumption that this additional transparency would increase investor protection by increasing accountability of the audit profession (engagement partner and audit firm) for the preparation and issuance of audit reports.

In proposing these amendments, the Board states that its inspections show that there is significant room for improvement by auditors in compliance with PCAOB standards including those that require auditors to perform the audit with due care and professional skepticism. While the Committee does not take issue with respect to these conclusions, we do not believe that lack of accountability by either the audit firm or the engagement partner for the quality of work performed is a significant cause of noted non-compliance. Survey after survey has demonstrated that auditors are among the most trusted professionals. Independence, objectivity, and professional skepticism are qualities that audit firms require in their engagement partners on all issuer engagements and non-public engagements and these qualities are routinely evaluated through internal inspections, peer reviews, PCAOB inspections and other quality control practices within those firms. Accordingly, we believe that audit firms and engagement partners already feel themselves highly

accountable for the quality of the work they control, perform and supervise and therefore, identification of the engagement partner in the audit report will not meaningfully heighten the accountability or provide additional investor protection. In fact, as indicated in our responses below, we believe the proposed changes may diminish investor protection by distorting the role of the engagement partner and that of the primary audit firm.

Similarly, we believe that audit firms, particularly due to the litigation and reputational exposure they incur if audit work is found to be sub-standard, already assign more experienced and capable partners to public and private company engagements. As such, we do not believe that identification of the engagement partner in the audit report will meaningfully impact such assignments.

In regards to whether identifying the engagement partner in the audit report would promote auditor independence by discouraging audit clients from inappropriately pressuring the firm to remove an engagement partner, the Committee believes that audit firms are only rarely pressured by clients to remove an engagement partner. Accordingly, public identification of the engagement partner would not have a meaningful impact. We also note that engagement partner changes occur for a variety of reasons, including mandatory rotation, retirement and relocation. Any public identification of engagement partner changes should not allow for misunderstanding that the change was due to client pressures.

As further described below, we do not believe it is necessary to report engagement partner's names on Forms 2 or 3.

Because the inclusion in the audit report of all participants in the audit process may tend to reduce the perceived responsibility of the accounting firm issuing the audit report or the perceived overall quality of the audit, we do not believe that such disclosure should be mandated.

The Committee is pleased to answer the 35 specific questions the Board has posed:

Disclosure of the Engagement Partner

1. *Would disclosure of the engagement partner's name in the audit report enhance investor protection? If so, how? If not, why not?*

   As described above, we believe that the engagement partner already feels highly accountable for the quality of the audit and therefore, that disclosure of his/her name in the audit report will not meaningfully enhance investor protection. The proposed requirement may mislead the public into thinking the individual partner acted alone, when in fact; every audit requires the coordinated effort of several individuals within the firm. The name of the engagement partner would provide no more protection to investors than the names of the chief of drilling operators of oil companies could protect the Gulf of Mexico from oil spills. Auditing firms are responsible for the proper management of an audit engagement and for implementing and maintaining quality control processes and procedures and managing its partners, employees and associates. The individual engagement partner, while having the

responsibility for overseeing the audit, is acting as a representative of his/her firm and not as an individual. We additionally note that the mandatory engagement partner rotation requirements provide an internal mechanism for additional accountability within each audit firm.

2. *Would disclosing the name of the engagement partner in the audit report increase the engagement partner's sense of accountability? If not, would requiring signature by the engagement partner increase the sense of accountability?*

   As described above, we believe that the engagement partner already feels highly accountable for the quality of the audit and therefore, that disclosure of his/her name in the audit report will not meaningfully enhance his/her accountability. Each audit firm should already have a system of quality controls, including internal and external engagement inspections, to reasonably ensure that each engagement partner has such accountability. It is the audit firm's responsibility to evaluate the partner's capabilities, experience and integrity and determine that he or she has the appropriate sense of accountability to protect the public interest. Additionally, if the engagement partner's sense of accountability is not present and auditing firms do not follow their responsibilities, neither disclosing the name of the engagement partner, nor requiring his/her signature, will impact accountability.

3. *Does the proposed approach reflect the appropriate balance between the engagement partner's role in the audit and the firm's responsibility for the audit? Are there other approaches that the Board should consider?*

   As indicated above, the individual partner already bears a heavy responsibility in protecting the reputation of his/her firm and ensuring that the firm's engagements comply with professional standards. An individual partner's responsibilities with respect to review and approval of the audit engagement are already outlined in great detail in the firm's quality control documents. The audit report is issued in the name of the firm and the audit firm bears the ultimate responsibility for the quality of the work performed, not the individual partner who supervised the engagement. Disclosing the name of the engagement partner may actually distort the public perspective of the responsibility between the audit firm and that partner and serve to diminish the role of the engagement quality control reviewer and other personnel contributing to the overall quality of the engagement.

4. *Would the proposed disclosure clearly describe the engagement partner's responsibilities regarding the most recent reporting period's audit? If not, how could it be improved?*

   In the event that the proposal to disclose the name of the engagement partner is adopted, the proposal is adequate to publicly disclose that individual. However, additional language might be considered valuable to clearly indicate that, while the engagement partner has overall responsibility for the audit, others within the audit firm also participate in the audit and are similarly responsible.

5. *Would the proposed disclosure clearly describe the engagement partner's responsibilities when the audit report is dual-dated? If not, how could it be improved?*

   In the event that the proposal to disclose the name of the engagement partner is adopted, the proposed disclosure is adequate.

6. *Would the proposed amendments to the auditing standards create particular security risks that warrant treating auditors differently from others involved in the financial reporting process?*

   While others, such as company management and the audit committee are much more responsible for the financial results and financial reporting than the auditor, we do not believe there is reason to treat auditors any differently than others involved in the financial reporting process.

7. *Would the proposed amendments to the auditing standards lead to an increase in private liability of the engagement partner?*

8. *What are the implications of the proposed disclosure rule for private liability under Section 10 (b)?*

9. *Would the disclosure of the engagement partner's identity affect Section 11 liability? If so, what should the Board's approach be?*

10. *Would the disclosure of the engagement partner's identity have any other liability consequences (such as under state or foreign laws) that the Board should consider?*

11. *Would a different formulation of the disclosure of the engagement partner ameliorate any effect on liability?*

    We believe that an engagement partner who signs the firm's name to an audit report of a public company currently has a tremendous amount of personal liability. We do not believe that the proposed disclosure requirement of the engagement partner's name will increase this liability, particularly because the identity of that partner is easily ascertainable in any legal proceeding. Yet we are not attorneys or legal experts, and as such, we concur with several of the Board members conclusions that the Board needs to hear from attorneys or legal experts on whether these proposals will have a meaningful impact on the engagement partner's personal liability prior to finalizing these proposals. Similarly, attorneys and legal experts should comment on the potential for increased liability for other parties named in the audit report. That legal opinion however, cannot be the final determinant but rather additional information necessary to reach a rational conclusion.

The Proposed Amendment to Form 2

12. *If the Board adopts the proposed requirement that audit reports disclose the name of the engagement partner, should the Board also require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

    No. Having this information so easily available to investors could allow them to scrutinize individual partners based on information that will likely be very incomplete and lead to inappropriate reductions in investor's confidence of the audit report. For example, an engagement partner might be associated with companies that have entered Chapter 11 and investors might inappropriately question the suitability of audit reports signed by that partner.

13. *If the Board does not adopt the proposed requirement that audit reports disclose the name of the engagement partner, should the Board nonetheless require firms to identify the engagement partner with respect to each engagement that the firms are otherwise required to disclose in Form 2?*

    No, as described above.

14. *Disclosure in the audit report and on Form 2 would provide notice of a change in engagement partner only after the most recent period's audit is completed. Would more timely information about auditor changes be more useful? Should the Board require the firm to file a special report on Form 3 whenever there is a change in engagement partners?*

    No to both, since we believe that public disclosure of the name of the engagement partner would not provide any meaningful additional investor protection.

15. *A change in engagement partner prior to the end of the rotation period could be information that investors may want to consider before the most recent period's audit is completed. Should the Board require the firm to file a special report on Form 3 when it replaces an engagement partner for reasons other than mandatory rotation to provide an explanation of the reasons for the change?*

    We would support this reporting of engagement partner changes if it were limited to identifying that a change occurred and why (e.g., partner retirement, partner relocation, partner workload adjustment) – as opposed to also disclosing the partners' names.

Disclosure of Other Participants in the Audit and Referred-to Accounting Firms

Disclosures When Assuming Responsibility or Supervising

16. *Is it sufficiently clear who the disclosure would apply to? If not, how could this be made clear?*

    Yes.

17. *Is it appropriate not to require disclosure of the individual who performed the EQR? If not, should disclosure of the engagement quality reviewer be required when the EQR is performed by an individual outside the accounting firm issuing the audit report or should the disclosure be required in all cases?*

    As stated previously, we do not believe that the name of the engagement partner should be disclosed in the audit report. Similarly, we do not support the disclosure of the EQR, even if that person is outside the accounting firm issuing the report.

18. *Is it appropriate not to require disclosure of the person that performed the Appendix K review?*

    Even if the engagement partner is identified in the audit report, we agree that with the Appendix K reviewer should not be identified.

19. *Is it appropriate not to require disclosure of persons with specialized skill or knowledge in a particular field other than accounting and auditing not employed by the auditor or persons employed or engaged by the company who provided direct assistance to the auditor?*

    Even if the engagement partner is identified in the audit report, we agree that persons with specialized skill or knowledge should not be identified.

20. *Would disclosure of off-shoring arrangements (as defined in the release) or any other types of arrangements to perform audit procedures provide useful information to investors and other users of the audit report? If yes, what information about such arrangements should be disclosed?*

    No.

Details of the Disclosure Requirements

21. *Would disclosure in the audit report of other participants in the audit provide useful information to investors and other users of the audit report? Why or why not?*

    The survey of investors cited in the Proposal would seem to indicate that this information is useful to them. However, given the current requirement under AU 543 for the principal auditor to perform sufficient procedures to place reliance on the work of other auditors, we question the value of these proposed disclosures. Such disclosures will likely result in inappropriate conclusions by readers that audits with higher usage of other firms and non-

employees are of a lower quality than audits with lower percentage usage of others. The proposed disclosures might also be perceived to suggest that there is shared responsibility for the audit.

22. *Are the proposed requirements sufficiently clear and appropriate with respect to identifying other participants in the audit? If not, how should the proposed requirements be revised?*

    Yes, the requirements are clear.

23. *Are the proposed requirements sufficiently clear as to when the name of a public accounting firm or a person would be required to be named in the audit report? Is it appropriate that the name of the firm or person that is disclosed is based on whom the auditor has the contractual relationship?*

    Yes, the requirements are clear.

24. *Would disclosure in the audit report of other participants in the audit have an impact on the ability of independent public accounting firms to compete in the marketplace? If so, how would the proposed requirement impact a firm's ability to compete in the marketplace?*

    Yes, the proposed requirements will result in a perception that a higher usage of other firms and non-employees is an indication of a lower quality audit. The requirement to disclose may also prompt some audit firms or non-employees to stop providing the services, which in turn, may become a disadvantage to smaller firms who cannot as readily obtain the internal resources to do the work.

25. *Are there any challenges in implementing a requirement regarding the disclosure of other participants in the audit? If so, what are the challenges and how can the Board address them in the requirements?*

    None, other than those already noted and described below.

Disclosure of Percentage of the Total Hours in the Most Recent Period's Audit, Excluding EQCR and Appendix K review

26. *Is the percentage of the total hours in the most recent period's audit, excluding EQR and Appendix K review, a reasonable measure of the extent of other participants' participation in the audit? If not, what other alternatives would provide meaningful information about the extent of participation in the audit of other participants?*

    The percentage of hours is not a reasonable measure which could be obtained without incurring tremendous administrative burden since other firms and non-employees typically do not provide this information and may even resist doing so. Although we do not agree with the disclosure proposal, the disclosure should be limited to the nature of the procedures

performed – such as "audited Sub X which represents A% and B% of revenues and assets" or "observed an inventory count at one location" or "performed internal control testing at two locations".

27. *What challenges, if any, would requiring the percentage of audit hours as the measure of the other participants' participation present?*

    One challenge would be timely receipt of this information from associated firms and non-employees, since some of them may not have systems in place that would allow them to produce this information as readily as the larger American firms. There would also be the challenge of the additional costs with obtaining this information, especially for smaller firms. Additionally, it is not clear which hours should be accumulated. For example, would hours incurred doing quarterly reviews, acquisition opening balance sheet audits, reviewing of predecessor auditor's work papers, client acceptance and retention be included or excluded from the "hours attributable to the current period's audit"?

28. *Should the Board require discussion of the nature of the work performed by other participants in the audit in addition to the extent of participation as part of the disclosure? If so, what should be the scope of such additional disclosures?*

    The disclosure should be limited to the nature of the procedures performed – such as "audited Sub X which represents A% and B% of revenues and assets". However, there may be some difficulties in describing the nature of the procedures performed in such a way that it would be adequately understood by a financial statement user without an accounting or auditing background.

29. *Would the proposed disclosure of the percentage of hours attributable to the work performed subsequent to the original report date in situations in which an audit report is dual-dated be useful to users of the audit report?*

    If other participant disclosures are required, the distinction between the hours worked either before or after the original report date does not appear to be worth the effort it would take to accumulate and disclose that information. If instead, only the nature of the procedures performed were to be disclosed, such disclosure could more easily accommodate the distinction, if it were deemed necessary, between procedures performed before or after the original report date.

30. *Is the example disclosure in the proposed amendments helpful? Would additional examples be helpful? If so, what kind?*

    We note that the examples provided exclude the primary audit firm. Accordingly, the percentages do not add up to 100%, which could cause confusion. As noted above, we do not support disclosure of relative hours in any case.

Thresholds

31. *Should disclosure of the names of all other participants in the audit be required, or should the Board only require disclosing the names of those whose participation is 3% or greater? Would another threshold be more appropriate?*

    Disclosing the names of all firms utilized could become cumbersome and unnecessary – consider situations where there are inventory counts observed by different auditors in many locations. There could be one firm per location, leading to a lengthy disclosure adding no meaningful information to the reader. While the 3% in the Proposal appears to be an arbitrary level, there should be a minimum threshold below which individual listing would not be required. Note that disclosure of firms and non-employees, both in the reporting and in the appendix, must be clear as to the responsibilities of all involved in the overall audit opinion. As an alternative, the Board should consider allowing the decision to individually list firms or non-employees up to the discretion of the primary auditor – with appropriate guidance to make such a decision included in the Final Standard.

32. *Is the proposed manner in which other participants in the audit whose individual extent of participation is less than 3% of total hours would be aggregated appropriate?*

    As noted above, we believe that the disclosure of the hours performed by other firms and non-employees should be replaced by the nature of the procedures performed. Should the primary auditor not list every other participant, a general statement can be made that others had insignificant participation in the audit and the nature of the work they performed.

Disclosure When Dividing Responsibility

33. *Are the requirements to disclose the name and country of headquarters' office location of the referred to firm sufficiently clear and appropriate?*

    While the requirement should be clear and open to ready interpretation and implementation, it is noted that the requirement is to disclose the other firm's headquarters' office location. This may not provide useful information to the reader as often the headquarters is not the location that performs the work referred to in the opinion. We recommend that only the office doing the work be disclosed instead of the firm's headquarters.

34. *Are there any challenges associated with removing the requirement to obtain express permission of the referred-to firm for disclosing its name in the audit report? If so, what are the challenges and how could they be overcome?*

    Auditors should be explicitly informed of the use of their reports and name in other, publicly available documents. Thus, eliminating the obtaining of express permission should not be part of this proposal. It should be noted that this permission often can be obtained during the engagement letter process, thus ensuring that there would not be a delay in processing the

financial statements. As an alternative, the Board should consider implementing a rule that would require the primary auditor to inform the other party in writing that they will be disclosed in the audit report.

35. *In situations in which the audit report discloses both the refer-to firm and other participants in the audit, would using different disclosure metrics (e.g. revenue for the refer-to firm and percentage of total hours in the most recent period's audit for the other firms and persons) create confusion? If so, what should the disclosure requirements be in such situations?*

    Different disclosure metrics may cause some confusion; however, we do not believe that confusion would be substantial. However, by instead only disclosing the nature of the procedures performed for any other named party, this confusion would be entirely avoided.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Kevin V. Wydra, CPA
Chair, Audit and Assurance Services Committee

James J. Gerace, CPA
Vice Chair, Audit and Assurance Services Committee

ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011 – 2012

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education and public practice. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

James J. Gerace, CPA	BDO USA, LLP
William P. Graf, CPA	Deloitte & Touche LLP
Howard L. Gold, CPA	LarsonAllen LLP
Jeremy L. Hadley, CPA	Pricewaterhouse Coopers
Jon R. Hoffmeister, CPA	Clifton Gunderson LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Michael J. Pierce, CPA	McGladrey & Pullen LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Medium: (more than 40 professionals)

Jennifer E. Deloy, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Sharon J. Gregor, CPA	Selden Fox, Ltd.
Timothy M. Hughes, CPA	Wolf & Company LLP
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly, P.C.
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

Small: (less than 40 professionals)

Scott P. Bailey, CPA	Bronner Group LLC
Julian G. Coleman, Jr., CPA	Horwich Coleman Levin LLC
Patrick J. Dolan, CPA	CJBS LLC
Robert D. Fulton, CPA	Mulcahy, Pauritsch, Salvador & Co Ltd
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Ludella Lewis	Ludella Lewis & Company
Carmen F. Mugnolo, CPA	Philip + Rae Associates, CPA's
Jodi Seelye, CPA	Jodi Seelye, CPA

Staff Representative:

Ryan S. Murnick, CPA	Illinois CPA Society