



ILLINOIS CPA SOCIETY

December 11, 2013

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 PCAOB’s Proposed Auditing Standards on *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and The Auditor’s Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor’s Report* (Docket Matter No. 34) dated August 13, 2013. 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.

Executive Summary

The stated purpose of the release, as illustrated through the “proposed auditing standard,” “proposed other information standard,” and related “proposed amendments,” is to increase the relevancy and usefulness of auditor reports, by adding “clarity” and “informational value,” for investors. As indicated in our response to the Concept Release dated September 30, 2011, our Committee is in favor of adding clarity to the auditor’s report so that the responsibilities of the auditor, management, and the audit committee are better understood by the financial statement users. We greatly appreciate the Board’s efforts on this undertaking and the opportunity to comment on the proposal. Our comment letter divides the whole proposal into three sections: Critical Audit Matters, Other Information Reporting, and Other Matters.

The Critical Audit Matters section includes the Committee’s views on adding such a section to the auditor’s report. Our Committee agrees that the requirements for the critical audit matters, as drafted, will not necessarily provide meaningful information to the users and that the additional information will be costly to provide. We suggest the Board align certain portions with the IAASB proposal, including revising the scope of items to be considered a critical audit matter to just those items communicated to those charged with governance and those issuers where the auditor should report on such information limited to just accelerated and large accelerated filers.

The Other Information Reporting section indicates our agreement with the Board regarding the wide disparity in practice over other information. We support an effort to standardize practice amongst auditors. However, we have concerns that the scope of the Board’s proposal includes items for which the auditor will be unable to make a determination based on the audit procedures performed. The proposal includes evaluations that the auditor cannot make based on normal audit procedures.

The Other Matters section includes the Committee’s thoughts on the remaining items in the proposal including independence and tenure disclosures. While we support the Board’s goal to increase investor knowledge and reduce information asymmetry, we do not believe much of the information included in this section will meet this goal. Rather, it appears neutral.



Critical Audit Matters

Definition and Determination of Critical Audit Matters:

Our Committee generally believes that the definition of critical audit matters is sufficient to capture information that *could* be relevant and useful to investors and other financial statement users. However, we believe that the definition, if applied too literally, may also capture information that is not likely to be particularly relevant or useful to those users. For example, the auditor may determine that the following matters could meet one or more of the three characteristics of a critical audit matter:

- a. The partners and staff to include on the audit engagement.
- b. The component auditors to reference in their report.
- c. The auditor specialists, among several choices of such specialists in the same field, to select.
- d. The auditor's need to be able to read and interpret audit evidence in a foreign language when the audit firm has limited resources that can read and understand that foreign language.

While the above examples, and others, might represent significant difficulties that the auditor needed to overcome to complete an audit, they generally would not be relevant or useful to financial statement users. That lack of usefulness might be obvious and lead auditors not to consider these types of matters as being critical audit matters worthy of communicating to financial statement users, but they nonetheless could literally be considered to meet the proposed definition of a critical audit matter. We note that some of these types of matters could conceivably be included amongst matters that are documented in an engagement completion document, reviewed by the engagement quality reviewer, or communicated to the audit committee. To reduce the potential for auditor's identifying these types of matters as critical audit matters, the definition of critical audit matters might refer to "Those matters having a material impact on the financial statements, including disclosures, that the auditor addressed during the audit of the financial statements ..." or other clarifying language.

In any case, we further note that even if critical audit matters are disclosed that fully meet the probable intention of the definition of critical audit matters, our Committee was not convinced that the additional information would be useful to investors. As defined, critical audit matters are a reflection of audit risk. Investors would presumably be more interested in identification and understanding of business risks (environmental, legal, regulatory, etc.) facing the issuer. Such information should be provided by management, not auditors, and is, at least in part, already required to be disclosed pursuant to non-financial reporting regulations.

We also note that the proposed definition could result in the identification of reportable critical audit matters that otherwise would have been exempted from disclosure by other rules and regulations. As Jay Hanson, PCAOB Board Member, observed in his Statement on the Proposed Standard, matters such as significant deficiencies and going concern doubts that were overcome may represent critical audit matters under the proposed definition and thereby be disclosed when such matters are specifically otherwise exempt, or perhaps even prohibited, from disclosure by other rules and regulations. For example, if a "close call" regarding the level of probable loss contingency accruals and/or disclosure of reasonably possible contingent losses in excess of amounts accrued are described as a critical audit matter, the user may question whether the proper accruals and disclosures were made.

For some of the reasons described above, our Committee believes that the population of matters an auditor should consider as potential critical audit matters should be limited to those matters required to be communicated to the audit committee. Such a requirement would be consistent with the current proposal by the International Auditing and Assurance Standards Board. A broader requirement also to consider matters included in engagement completion



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documentation and reviewed by the engagement quality reviewer is likely to result in matters of significantly lesser importance being eligible for disclosure as critical audit matters. At a minimum, the proposed standard should indicate that matters communicated to the audit committee are the primary population of matters to be considered for disclosure as critical audit matters.

While the use of the word ‘most’ in the definition of critical audit matters in paragraph A2 is generally adequately explained, it is not clear whether ‘most’ should be considered solely in the context of the particular audit being reported on or whether it should be considered in the context of audits in general. For example, an auditor will likely encounter appreciable difficulties in auditing the valuation of intangible assets in many of its audits. For a particular audit, perhaps these difficulties – while less appreciable than in the ‘average’ audit – might nonetheless have posed the most appreciable difficulty for this particular audit. Presumably, the Staff’s intention is to consider ‘most’ solely in the context of the audit being reported on; however, that intention is not clear in the proposed definition or guidance.

Undue Consequences:

An auditor’s unqualified opinion on the financial statements indicates that the auditor was sufficiently able to overcome the difficulties associated with the disclosed critical audit matter(s) in order to provide the unqualified opinion that the audited financial statements are fairly stated in accordance with the applicable financial reporting framework. As such, the reporting of critical audit matters may unduly raise investors’ and other financial statement users’ concerns over the quality of the audited financial statements. If the critical audit matter describes a significant deficiency, that disclosure may not only prompt a user, who generally is not a trained auditor, to suspect the veracity of the financial statement opinion, but also of the internal control opinion if one is provided (and/or of management’s report on internal controls). Such undue concerns will potentially result in a) excessive communications between management and stakeholders in earnings conference calls and other modes as stakeholders try to better understand the issues underlying the disclosed critical audit matters and how management nonetheless determined that the issuer’s financial statements were reliable, and b) inappropriate conclusions regarding investing decisions.

While the auditor’s report will indicate that no critical audit matters alter the auditor’s opinion on the financial statements, users may nonetheless consider the disclosed critical audit matters as somehow qualifying that financial statement opinion. Also, as indicated above, investors that mistakenly over rely on critical audit matter disclosures to highlight areas of concern, may not be properly informed or consider items that were not included as a critical audit matter, in particular business risks. In an effort to potentially minimize these concerns, we suggest expanding the final sentence of the standard language preceding critical audit matters in the auditor’s report as follows:

“The determination of critical audit matters is highly subjective. The critical audit matters communicated below may not represent all or even the most important elements of the accompanying financial statements and should not be considered as such. Furthermore, the critical audit matters communicated below were adequately addressed by our audit procedures and therefore do not alter, in any way, our opinion on the financial statements, taken as a whole.”

Due to the subjective nature of critical audit matters, different auditors, both within and amongst the audit firms, will select different places along the ‘difficulty’ continuum where a matter becomes a reportable critical audit matter. Comparability between auditor reports will decrease, in both the number and content of the specific matters that are disclosed, as well as the in the degree auditors consider matters to be critical audit matters. Additionally, companies may - over time and likely with the aid of media or other reports that will evolve to track such things - start to consider which audit firms disclose more or fewer critical audit matters and how those disclosures are made when those companies choose which audit firm to engage.



Audit Period Covered:

We agree with the Board’s assessment that it will usually be sufficient to include critical audit matters only for the current year audit as investors and other users will likely be most focused on the current year and could easily access prior year disclosures in any case. We believe inclusion of prior period critical audit matters may distract from the potential usefulness of the communication, since the matters disclosed are likely to be the same or similar from year to year. We suspect that auditors might tend to not want to vary the critical audit matter disclosures from year to year (other than for nonrecurring transactions that might result in critical audit matter disclosures) to reduce potential legal exposure with identifying critical audit matters in one year when they were not called out, but were present, in other years.

The Note on paragraph 10 requires the auditor to consider disclosing critical audit matters for prior years’ audits in certain circumstances, but provides no guidance as to what those considerations might be relevant to such an assessment. Additionally, we would recommend that the guidance regarding a predecessor auditor not being required to include previously-disclosed critical audit matters when that predecessor’s report is included in filings on comparative statements (as indicated on page A5-34) be added directly into the proposed standard.

Communication of Critical Audit Matters:

We strongly support not requiring, or even permitting, disclosure of any specific audit procedures, including resolution of critical audit matter. Doing so could a) undermine the audit process by informing management of the auditor’s plans and b) lead to more investor confusion and uncertainty as such disclosures would be almost impossible to completely convey the range of relevant procedures performed, and why they were selected, as well as confusion over audit concepts such as sampling and materiality.

The examples of critical audit matters in Appendix 5 are helpful in that they provide a lot of detail that could be useful in drafting critical audit matter language on unrelated topics. However, we believe the repeated use of such phrases as “involved difficult and subjective judgments,” “posed difficulty in obtaining sufficient appropriate evidence,” “posed difficulty in forming an opinion on the financial statement,” and “we consulted with others outside the engagement team,” may result in similar, “boilerplate” language being used by firms in communicating these issues for similar reasons to those noted above. We also note that the amount of details included in the example disclosures add to their length and complexity and will potentially result in longer drafting and discussion time and cost. As such, we recommend more succinct example disclosures while leaving the comprehensive background and footnote disclosure elements.

Documentation of Critical Audit Matters:

In documenting the auditor’s determination that each reported matter was a critical audit matter, it would appear that the considerations for such a determination would be the same as the considerations required to be disclosed pursuant to paragraph 11b of the Proposed Standard. As such, it is possible for the auditor to conclude that the auditor’s report itself provides the documentation required by the Proposed Standard for matters that are reported. We recommend that the Proposed Standard indicate this concept in order to reduce the burden of such documentation.

In regards to the proposed documentation requirements for non-reported audit matters, we note that many auditors might consider that every matter included in an engagement completion document, reviewed by the engagement quality reviewer or communicated to the audit committee, is ‘eligible’ to be reported as a “critical audit matter”. We note in the proposal’s guidance on pages A5-39 and A5-40 that not every such matter would be expected to require explanatory documentation and that only such matters that an experienced auditor having no previous connection to



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the audit might, after also considering the factors in paragraph 9 of the Proposed Standard, believe to be reportable critical audit matters require explanatory documentation. However, many auditors will use similar criteria to that outlined in Paragraph 9 in determining which items to include in the engagement completion document, have been reviewed by the engagement quality reviewer or communicate to the audit committee. Therefore, an auditor may conclude that every one of these items would require explanatory documentation if it was not reported. We believe such a documentation requirement would be unduly burdensome and would likely result in auditors ultimately reducing the number or type of such items reviewed or communicated, resulting in lower quality reporting. We note again our preference that the population of possible matters to be considered as critical audit matters be limited to those matters required to be communicated to the audit committee.

Otherwise, we believe that the proposed documentation requirements are sufficiently clear.

Other Considerations for Critical Audit Matters:

An additional effort and cost, for both auditors and companies, which may not be adequately described, is the discussions between auditors and management and audit committees that will undoubtedly ensue regarding which matters the auditor determines to include in its report and how such matters are described. Even though the auditor's opinion will be unqualified, management and audit committees will encourage fewer and shorter critical audit matter disclosures, whereas auditors may tend to want to include more matters and fuller descriptions to lessen perceived liability concerns, likely after internal legal consultation. As an additional detriment, these discussions will take place near the filing deadline, thereby adding increased pressure to achieve that deadline.

A similar situation occurred a several years ago when SEC reporting first required auditors to report identified material weaknesses in internal control. Such reporting also prompted discussions that took place at the back end of the audit process and, as such, perhaps there is some historical evidence to help assess more specifically what impacts critical audit matter discussions might have. However, since management was also required to identify material weaknesses but will not be required to identify critical audit matters, it may be difficult to use the experience with material weaknesses as a benchmark for assessing the effect of critical audit matter disclosures.

Another additional effort and cost for companies that may not be adequately described in the proposal material is the incremental communications management will likely need to make to its stakeholders as to the reliability of the issuer's financial statements in light of the identified critical audit matters.

Our Committee believes that audit firms will incur fairly substantial costs - both one-time to adjust internal quality assurance mechanisms and recurring to determine the exact disclosures on each audit - in order to help manage perceived litigation and regulatory oversight concerns and to reduce potential confrontations with management and audit committees. This increased effort, primarily by partners, and increased perception of litigation and regulatory oversight concerns will translate into higher audit costs for issuers.

We would expect that such efforts and costs, for both auditors and companies, would generally be proportionate to the complexity of the audit, with more complex audits requiring more efforts and higher costs. Audit complexity might be driven by company size, company industry, the accounting standards applicable to the company, company SEC filing status, or other factors. However, even relatively non-complex audits would incur incremental efforts and costs, while the more complex audits will likely have diminishing incremental efforts and costs. For example, even the relatively non-complex audits will likely have one or a few critical audit matter(s) disclosed, while audits with, say, more than three times the complexity, will not necessarily have more than three times the number of disclosed critical audit matters. Investors may not understand this difference in critical audit matters related to the engagements.



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To help contain incremental audit costs, our Committee would be in favor of limiting the requirement to disclose critical audit matters to reports on financial statements of accelerated and large accelerated filers.

While the Committee believes that incremental auditor liability concerns are less prevalent in these proposed critical audit matter reporting requirements compared to some of the approaches described in the related Concept Release, the proposed requirements do raise some incremental auditor litigation risk – if for no other reason than the requirements force an auditor to make incremental decisions (about what are and how to describe critical audit matters) and to disclose those decisions to the public who may not understand the meaning of the disclosures or the process an auditor might go through to make the related decisions. However, our Committee believes that this incremental risk is not substantial compared to the litigation risk that the auditor already assumes in being associated with the financial statements and issuing an unqualified opinion thereon. However, and importantly, we note that no one on our Committee is an attorney and, as such, our comments in this area are not supported with appropriate specialized knowledge.

Other Information Reporting

The Committee agrees with the Board in that a more uniform process is necessary to minimize differences in an auditor’s approach to other information included with audited financial statements in a company’s annual report, as there is wide variety in what auditors are actually performing in practice. We support aligning the procedures performed by audit teams; however, we offer some suggestions to the current proposal, which are included below:

Auditor’s Responsibility to Evaluate:

In paragraph 4, the proposal states the auditor will be required to read the other information and, based on relevant audit procedures and conclusions during the audit, “evaluate” the other information. The term “evaluate” is not specific to the procedures the auditor should actually perform. Each bullet should include the specific procedure language. For example, bullet a. could read “Trace and agree amounts from other information to the financial statements or relevant audit evidence for consistency.” The release notes include greater discussion about the meaning of “evaluate.” We request the Board to include the specifics (as discussed starting on A6-19 of the proposal documentation) within the standard itself. As written, the proposal can be broadly interpreted by auditors, which does not help to standardize the procedures between auditors.

Paragraph 4b of the proposed standard includes, “evaluate the consistency of any qualitative statement in other information...” Auditors are qualified to opine on the financial statements. They are not experts in all things like the qualitative statements (paragraph 4b of the proposal) often found in annual reports. Phrases like “industry leader,” “top performer”, etc. are common. These types of qualitative assertions are not the auditor’s specialty to monitor. The SEC should be monitoring these types of claims through its inspection and comment letter process, rather than the auditor. If auditors question management’s qualitative assertions, they may include less information in annual reports, instead of more – an unintended consequence of the proposal.

Paragraph 4c includes other information not directly related to the financial statements. This scope can include items that auditors are not qualified to evaluate. We disagree with this bullet for two reasons. With the advent of the risk assessment standards, the information that could potentially impact the audit have expanded greatly to include qualitative items, like company strategy, human resources involvement, and possible actions by competitors. As a result, the scope is unclear. Also, we are concerned this includes items that auditors do not have knowledge about and that does not related to any audit evidence. For example, the beneficial ownership table does not impact the financial statements and is not something auditors have expertise to evaluate. We request the Board to remove paragraph 4c in its entirety.



Auditor’s Report Language:

We are concerned about the language in the example at paragraph 14b that reads, “based on our evaluation, we have not identified a material inconsistency or a material misstatement of fact in the other information.” It reads as if the auditor has performed involved audit procedures (equivalent to those performed on the financial statement balances as part of the audit) over the other information. This can confuse and mislead financial statement users into thinking that the auditor has performed audit procedures over the entire annual report, not just the financial statements. This sentence conflicts with the language found in paragraph 14a that reads, “our evaluation was based on relevant audit evidence obtained and conclusions reached during the audit. We did not audit the other information and do not express an opinion on the other information.” Clearly stating that a material inconsistency or material misstatement was not identified can be interpreted similar to an official opinion.

Economic considerations in applying the proposed standard:

Additional time and staffing resources will be needed to comply with the proposal, which will add costs to audit engagements, particularly late in the engagement. Our Committee estimates that for simple, smaller reporting companies, the additional time could be as few as 20 hours. However, for large, multi-national companies with extensive other information, we estimate that the additional time incurred could exceed 50 hours. Public accounting firms will not be able to simply add a new member to the team to complete the proposed procedures because the proposal suggests that teams use their existing audit knowledge to complete the procedures. The core audit team will need to complete these procedures. Without adding more time to filing deadlines, this could potentially compromise audit procedures and time spent on other audit areas.

In addition, applying the standard to amended annual reports will cause a significant economic burden, due to scheduling challenges and audit team member rotation and tenure. In addition, this situation will lead to uncertainty surrounding the date of the auditor’s report and the responsibility the auditor is taking after the original audit report date. There is not clear guidance in the proposed standard to address these concerns.

Applicability of Standard to Audited Financials Statements of Another Entity Pursuant to Article 3 of Regulation S-X:

The Board is seeking comment on whether or not the proposed other information standard should apply to audited financial statements of another entity that are required to be filed in the company’s report under Article 3 of Regulation S-X (such as a business that is acquired or to be acquired) and whether there are practical issues in doing so. The Committee does not believe that the auditor should include these other entities in the evaluation because the financial statements of the other entity have been subject to an audit independent from the company and the auditor. So, the auditor would not have the audit support to evaluate the items included. We recommend that the proposed other information standard not apply to such information. If the audit of the other entity was performed in accordance with PCAOB standards, then the other auditor would have already performed an evaluation of the other information associated with the other entity’s financial statements.

Other Matters

Auditor Report Addressees:

The proposed requirement to address the auditor’s report to at least (1) investors/shareholders of the company, and (2) the board of directors or equivalent governing body could be perceived by users of the financial statement to be of



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relevance only for the explicitly addressed user groups and potentially limiting the scope and responsibilities of the auditor to those addressed user groups only.

We believe an audit should address the needs of all potential users of the financial statements, rather than being limited to the needs of specific users. Furthermore, the auditor stands between management and the investment community and must be viewed as independent of each. The auditor should not be viewed as an advocate of either party. While the auditor's role includes consideration of both management and investors as potential users of the financial statements, we believe addressing the auditor's report solely to these two groups may exclude other potential users of the financial statements is not realistically feasible, even if management helped identify potential users. As such, we believe that the required inclusion of addressees in the auditor's report will become standardized language to include only the two (2) proposed required user groups.

The Committee does not believe adding required addressees is significant to the financial statements, will appreciably serve the purpose of better informing readers of the financial statements, or will significantly impact the scope of the audit or the responsibilities of the auditor. We do not believe further consideration or amendment of this proposed requirement is worth the effort by any involved party, and we recommend that the requirement be excluded from any finalized standard.

Auditor Tenure:

Our Committee has no objection to the underlying principle of disclosing auditor tenure as long as it is not done in the auditor's report. The proposed requirement to disclose auditor tenure in the auditor's report tends to imply that there is an actionable basis for the financial statement user in interpreting such information. As noted in Board member statements and academic studies referenced within the proposal, there is not a definitive linkage between auditor tenure and audit quality. As such, adding an auditor tenure disclosure to the auditor's report infers that some definitive linkage must exist between auditor tenure and audit quality, which should be considered by the user.

The determination of the number of consecutive years that an auditor served is sometimes difficult to make. There are infinite grey areas regarding calculating auditor tenure and such determination may require legal involvement and, as a result, more effort and cost than might otherwise be expected. As such, we would recommend that any requirement to disclose auditor tenure allow the auditor to explain, if necessary, how such disclosure was determined. Additionally, the disclosure of just auditor tenure, without disclosure of auditing standards that likely have greater impact on audit quality (such as required quality control standards and even mandatory partner rotation requirements), may result in an unbalanced presentation of the relevant facts. We further note that if such expanded reporting was required or permitted (including information for balance), putting it in an auditor's report would risk overwhelming the users of the financial statements with information that may not be considered incrementally helpful to them.

We also note that auditor tenure information is already publically available to interested parties via historical filings, if desired. For example, if an individual investor decided that he/she would only invest in companies that have an auditor with tenure of less than 10 years, the investor could reference previous filings to determine whether or not the company met the individual investor's standards. Therefore, the additional effort for a potentially small segment of financial statement users that might be influenced by this disclosure is not worth the additional tangible and intangible costs to provide it.

Auditor Independence:

The proposed requirement to include a statement in the auditor's report regarding the auditor's independence is provided in the example as follows:



“We are a public accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”) (United States) and are required to be independent with respect to the Company in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) and the PCAOB...”

The required title of the auditor’s report is “Report of Independent Registered Public Accounting Firm.” The Committee believes that even less sophisticated users of the financial statements could infer from the title of the report alone that the auditor is (1) registered as a public company auditor under the applicable governance body (the PCAOB in this case) and (2) independent. As even fairly sophisticated users will not be familiar with the nuances involved in the definition of “independent” in accordance with the “United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission (“SEC”) and the PCAOB” referring to those laws and regulations has little significance. Accordingly, while we do not strongly object to the proposed independence disclosure, we do not believe it will add any appreciable incremental value to financial statement users. We further note that the use of unnecessary and overly technical references may diminish the trust between financial statement users and auditors.

Explicit Reference to Opining on “Fraud”:

The existence of fraud is a valid concern of both auditors and users of the auditor’s reports. Preventing and detecting fraud is the responsibility of management. Assessing the risk of fraud, and planning and performing audit procedures in relation to those risks, is a role of the auditor. Detection of all fraud, regardless of materiality, is not the responsibility of the auditor. The inclusion of the phrase “whether due to error or fraud” in the first paragraph of the Basis of Opinion section of the auditor’s report when describing an auditor’s reasonable assurance about whether the financial statements are free of material misstatement alone implies that the auditor is responsible to reasonably assure the users of the financial statements that they are free of even immaterial fraud. This implication could provide for a false sense of security and perceived transfer of responsibility in preventing and detecting fraud away from management, exposing companies to greater risk of fraud, and unintentionally increasing auditor liability. We believe that the required inclusion of the phrase inaccurately increases an auditor’s assurance beyond auditor responsibilities and should be excluded from any finalized guidance, without adequate disclosure of the auditor’s responsibility for fraud.

We strongly object to the sole addition of the phrase “whether due to error or fraud.” As a solution to provide clarity, in addition to a supplemental alternative described in the “Other Report Wording Changes” subsection below, is to require the following sentence in the introduction paragraph describing management’s various responsibilities:

“Company’s management is also responsible for designing and implementing controls to prevent and detect fraud, and to inform us about all known or suspected fraudulent activity that could have a material effect on the Company’s financial statements.”

Other Report Wording Changes:

The Committee recognizes the auditor’s report has become “boilerplate” in nature and that financial statement users have become accustomed to the format and reference it solely to understand whether or not the Company passed or failed the audit. Although the current model has been effective, the Committee agrees that clarification and amendment of the standard auditor’s report is appropriate if the information enhances a financial statement user’s understanding of the audit process and auditor’s, management’s and the audit committee’s roles in regards to the audited financial statements. Unless otherwise described in this letter, we do not object to the proposed wording



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changes in the auditor's report nor, however, do we believe that they necessarily add meaningful informational value or clarity.

The Committee believes that, irrespective of the significant proposed expansion of the auditor's report, the added section titles will aid the financial statement user in identifying relevant sections of the auditor's report.

The proposal acknowledges the need for greater clarification in the role and responsibilities of auditors, management and audit committees. However, the proposed auditor's report provides little improvement in adding clarity, transparency, or informational value in aiding the users of the financial statements in understanding those roles and responsibilities. We believe the current proposal is instead more focused on the disclosure of Critical Audit Matters and Reporting on Other information. The Committee recognizes that the auditor's report, as proposed, is approaching a potentially unreadable length and that a thorough description of everyone's roles and responsibilities with respect to the related financial statements and disclosures would further add to repetitive "boilerplate" verbiage across each auditor report for infinite periods, which is inefficient, and contrary to the principles of this proposal.

We do not believe the current reporting framework is broken; however, we do believe that the more financial statement users understand about the public company auditor and its responsibilities in regards to the audited financial statements, the more informed they will be as to the level of assurance the auditor provides in its report as to the fair presentation of the financial statements. While this incremental understanding does not necessarily translate into a better understanding of what risks might reside in those financial statements, it nonetheless allows the user to better appreciate how the auditor may have addressed such risk as part of its audit. However, we recognize that a lengthy description of the responsibilities of the various parties in regards to audited financial statements inside of the standard auditor's report would unduly increase its length and comprehensiveness. Accordingly, we remind the Board of a supplemental alternative we provided as a part of our response to the Concept Release to this proposal, for the auditor's report to provide a cross reference to a more complete description of what a public company auditor's roles and responsibilities are, and a general discussion on risk assessment, professional judgment, materiality, and sampling concepts a compliant audit might provide. The referenced materials would be described in "plain English" and could be available to the general public on a free basis from a named web-site. We believe that the cost of creating this singularly referenced guidance statement would significantly outweigh the repetitive and truncated statements of responsibility in each audit report, and would potentially be perceived as adding more value from an independent governing body providing outreach as compared to audit firm disclaiming responsibility.

Relevance to Audits of Specific Entities:

As further described throughout this letter, the additional required procedures, disclosures, and cost to comply with the standards, as proposed, are going to be overly burdensome to certain registrants. There are many entities required to register with the SEC and/or have their audits conducted in accordance with PCAOB standards due to various federal laws. However, the SEC has issued exceptions to many of their filing requirements to many of these entities due to the nature of their operations, users, and usefulness of their financial information and the cost/burden of providing much of the information as described in this proposal. Without analyzing each individual industry, we recommend as a general rule of thumb, the Board consider limiting the required final reporting requirements on Critical Audit Matters and Other Information to those entities considered a public reporting company under Sections 12 or 15(d) of the Securities Exchange Act of 1934.

Overall comment:



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Under the proposed standards, we believe that the potential liability in private litigation would increase. Based on the changes in the proposal, it would appear the auditor is taking on a significant amount of responsibility over the financial statements and other information, which is the responsibility of management and not the auditors.

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,

James J. Gerace, CPA

Chair, Audit and Assurance Services Committee

Elizabeth J. Sloan, CPA

Vice Chair, Audit and Assurance Services Committee



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2013 – 2014

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 almost 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:

National:

- | | |
|-------------------------|---------------------------------|
| Scott Cosentine, CPA | Ashland Partners & Company LLP |
| Eileen M. Felson, CPA | PricewaterhouseCoopers LLP |
| Angela Francisco, CPA | McGladrey LLP |
| Robert D. Fulton, CPA | Baker Tilly Virchow Krause, LLP |
| James J. Gerace, CPA | BDO USA, LLP |
| Jon R. Hoffmeister, CPA | CliftonLarsonAllen LLP |
| James R. Javorcic, CPA | Mayer Hoffman McCann P.C. |
| Matthew G. Mitzen, CPA | Plante & Moran, PLLC |
| Elizabeth J. Sloan, CPA | Grant Thornton LLP |
| Kevin V. Wydra, CPA | Crowe Horwath LLP |

Regional:

- | | |
|--------------------------|-------------------------------------|
| Jennifer E. Deloy, CPA | Frost, Ruttenberg & Rothblatt, P.C. |
| Barbara F. Dennison, CPA | Selden Fox, Ltd. |
| Andrea L. Krueger, CPA | Corbett, Duncan & Hubly, P.C. |
| Stephen R. Panfil, CPA | Bansley & Kiener LLP |

Local:

- | | |
|--------------------------|----------------------------------|
| Scott P. Bailey, CPA | Bronner Group LLC |
| Matthew D. Cekander, CPA | Doehring, Winders & Co. LLP |
| Lorena C. Johnson, CPA | CJBS LLC |
| Loren B. Kramer, CPA | Kramer Consulting Services, Inc. |
| Carmen F. Mugnolo, CPA | Mugnolo & Associates, Ltd. |
| Geoff P. Newman, CPA | Weiss & Company LLP |
| Steven C. Roiland, CPA | FGMK, LLC |
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