ILLINOIS CPA SOCIETY

November 15, 2017

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 042

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the PCAOB's Supplemental Request for Comment: Proposed Amendments Relating to the *Supervision of Audits Involving Other Auditors and Proposed Auditing Standard - Dividing Responsibility for the Audit with Another Accounting Firm* (Docket Matter No. 42), dated September 26, 2017. 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.

GENERAL COMMENTS:

As a Committee, we agree with efforts made by the PCAOB and believe the proposed amendments to AS 1205 as well as the new proposed auditing standard AS 1206 are needed to help drive audit quality. The Committee also believes the revisions proposed in the supplemental request for comment provided additional clarity to the proposed amendments, and appreciates the PCAOB's responsiveness to comments submitted with the initial proposed amendments.

For reference, our response to the original proposed amendments dated April 12, 2016 are attached to this letter (see Appendix B).

Our response to the supplemental request for comment is limited to the following question.

PCAOB QUESTIONS:

Question 3:

Are the revised requirements relating to the other auditors' compliance with the independence and ethics requirements appropriate? Are there any practical challenges associated with the revised amendments? If so, what are they, and how could the proposed requirements be revised to address the challenges?

Response:

We believe the proposed amendments surrounding gaining an understanding of the other auditor(s) knowledge of the SEC and PCAOB independence and ethics requirements, and their experience in applying the requirements are prudent. However, we believe the revised requirements relating to the other auditors' compliance with the independence and ethics requirements would create an undue burden on the lead auditor, in particular when the other auditor is not part of the lead auditor's network. Some out-of-network other auditors might be reluctant to provide the lead audit firm with details regarding local independence, ethics, or training. In addition, there could be scenarios

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when additional costs and challenges are incurred, particularly if the other auditor(s) do not meet appropriate independence and ethics requirements. Or, there could be situations in which there are no viable other auditor(s) located in or near the city of the entity being covered by the other auditor, thereby requiring the lead auditor to perform the audit.

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 R. Javorcic, CPA
Chair, Audit and Assurance Services Committee

Scott Cosentine
Vice Chair, Audit and Assurance Services Committee

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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2017 – 2018

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:

Timothy Bellazzini, CPA	Sikich LLP
Todd Briggs, CPA	RSM US LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Heidi DeVette, CPA	Johnson Lambert LLP
James J. Gerace, CPA	BDO USA, LLP
Michael R. Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
John Offenbacher, CPA	Ernst & Young LLP
Michael Rennick	Grant Thornton LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Richard D. Spiegel, CPA	Wipfli LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Regional:

Jennifer E. Deloy, CPA	Marcum LLP
Michael Ploskonka, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

Local:

Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	Mueller & Company LLP
Joseph Skibinski, CPA	

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Industry/Consulting:

Sean Kruskol, CPA	Cornerstone Research

Educators:

David H. Sinason, CPA	Northern Illinois University

Staff Representative:

Heather Lindquist, CPA	Illinois CPA Society

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APPENDIX B

July 29, 2016

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket No. 042

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the PCAOB's Proposed Amendments Relating to the *Supervision of Audits Involving Other Auditors and Proposed Auditing Standard - Dividing Responsibility for the Audit with Another Accounting Firm* (Docket Matter No. 42), dated April 12, 2016. 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.

GENERAL COMMENTS:

As a Committee, we agree with efforts made by the PCAOB and believe the proposed amendments to AS 1205 as well as the new proposed auditing standard AS 1206 are needed to help drive audit quality. Our response is limited to the following questions.

PCAOB QUESTIONS:

Question 1:

Does the description of existing audit practice accurately depict the state of practice? Does the discussion of the reasons to improve auditing standards sufficiently describe the nature of concerns arising from the use of other auditors that the Board should address? Are there additional concerns that the Board should seek to address?

Response:

We believe the description of existing audit practice is accurate. We also believe that the discussion of the reasons to improve auditing standards as it relates to the Use of Other Auditors sufficiently describes the current nature of concerns the Board should address. The original standard was issued in 1979 and updated in 1996, however, with the increase in corporate globalization and the use of other auditors, this amendment should improve audit quality.

Question 2:

Are these proposed amendments to existing standards appropriate? Are additional changes needed to increase the likelihood that the lead auditor is sufficiently involved in the other auditor's work? Should the Board require specific procedures to address business, language, cultural, and other differences between lead auditors and other auditors, and if so, what types of procedures?

Response:

Yes, we believe the proposed amendments are appropriate and should improve audit quality. We believe the changes to increase the lead auditor's involvement are appropriate.

Question 6:

The Board requests comment generally on the potential benefits to investors and the public. Are there additional benefits the Board should consider?

Response:

We believe the proposed amendments will provide more transparency when using other auditors and will, therefore, benefit investors and the public.

Question 8:

The Board requests comment generally on the potential unintended consequences of the proposal. Are the responses to the potential unintended consequences discussed in the release adequate? Are there additional potential unintended consequences that the Board should consider? If so, what responses should be considered?

Response:

We believe there could be other unintended consequences beyond what is discussed in the proposed standard. For example, if the lead auditor does not have a network firm in a particular country and needs to consider the use of the statutory auditor in the audit; if the statutory auditor is not registered with the PCAOB, the lead auditor may need to send his/her engagement team to the country to complete the audit. These additional procedures could increase the cost of the audit.

Question 9:

Could the proposed requirement for lead auditor supervision diminish (or be perceived as diminishing) the other auditor's accountability for the work the other auditor performs? If so, are any changes to the proposal needed to describe the other auditor's responsibilities?

Response:

Typically, the lead auditor will ask the other auditor to issue a "report", so we would not say it diminishes the "other auditors" accountability over their own work. From the Board's release, you have seen evidence that with increased supervision and direction given to the other auditor, there was an increase in the quality of their work. We believe the perception would be that the other auditor's work would improve due to the increased supervision by the lead auditor.

Question 10:

Could the proposed requirement for lead auditor supervision induce lead auditors in some audits to divide responsibility with another accounting firm rather than supervise the accounting firm? If so, how often might this division of responsibility occur?

Response:

Yes, if the other firm is a great distance apart and close supervision cost-prohibitive, this could induce the lead auditor to divide responsibility, by referring to the other auditor in their report. In addition to being cost prohibitive, there is also the matter of completing all the work to a strict deadline. The lead auditor may physically not be able to do all their work here in the US, "closely supervise" firms in other countries and still meet strict deadlines. If the lead firm is already performing additional procedures, they are less likely to divide responsibility.

Question 14:

The Board requests comment generally on the analysis of the impacts of the proposal on audits of brokers and dealers. Are there reasons why the proposal should not apply to audits of brokers and dealers? Are there any factors specifically related to audits of brokers and dealers that should affect the application of the proposal to those audits?

Response:

We believe that Brokers and Dealers should follow the same standards as issuers.

Question 16:

Are the proposed definitions of: (a) "engagement team," (b) "lead auditor," (c) "other auditor," and (d) "referred-to auditor" appropriate? Do the proposed definitions clearly describe individuals and entities that are included in these definitions? Is it clear which individuals or entities are not included in these definitions? If not, what changes to the proposed definitions are necessary?

Response:

Yes. See question #17, for specific revision to "lead auditor"

Question 17:

Some global network firms use short-term (several months) personnel sharing arrangements, during which some available personnel are seconded to other firms and function as their employees. Some firms contract with consulting firms or temporary workforce agencies for personnel that work alongside and in the same capacity as personnel on the engagement team that are employed by the lead auditor. Should these personnel be treated as part of the lead auditor?

Response:

Yes, if these personnel are supervised by the lead auditor, working out of their location, and their work is reviewed by the lead auditor, these team members should be treated as personnel of the lead auditor. Page A1-21, Appendix A .A3, a (1), uses the phrase: "professional staff employed or engaged by". It may be helpful to include a footnote to explain the breadth of the meaning of the term "other auditor", as explained in your question.

Question 19:

Should there be requirements for the lead auditor to: (1) specifically identify the engagement team members responsible for assisting the engagement partner of the lead auditor in fulfilling his or her supervisory responsibilities and (2) document such assignments? Should the individuals who assist the engagement partner with supervision be limited to engagement team members from the office issuing the auditor's report?

Response:

Yes, documentation should include engagement team members and their roles in the engagement. The office issuing the report should not be required to be the only office "supervising" staff in other countries. "Supervision" is a broad term, and we believe it also covers direct supervision in that country. The lead auditor could also "remotely supervise" by other means which includes direct review of high risk area work papers.

Question 20:

To emphasize the importance of assigning the proposed planning and supervision requirements to personnel with the appropriate qualifications in audits involving other auditors, the proposed definition of "lead auditor" references existing standards that describe making appropriate assignments of engagement responsibilities. Does this reference appropriately address the responsibility to seek planning and supervision assistance from qualified engagement team members in these situations?

Response:

This question was deemed to have a certain element of ambiguity. Specifically, it's unclear whether the Board is seeking comment on situations in which the engagement partner assigns planning or supervisory requirements to an individual within his or her firm to bridge language or cultural differences or whether it's specific to the engagement partner's direct oversight of other auditors.

If the former, then we advise the following:

> The definition or its footnotes should include discussion of the lead auditor engagement partner's need to consider the assignee's requisite familiarity with the industry in which the company operates, as well as the language and cultural norms of the other auditor.
>
> We feel this clarification is necessary to ensure an engagement partner identifies resources within his or her firm that are not only proficient in the local language and cultural norms, but also familiar with accounting issues and audit risks within the relevant industry to be able to identify and communicate deficiencies to the engagement partner.

If the latter, then we advise the following:

> Paragraph .B6 in Appendix B (Page A1-14 of Release No. 2016-002) should either be referenced or incorporated into the definition of lead auditor. In other words, we feel the definition should be clear with respect to the engagement partner's need to consider the other auditor's experience in the industry in which the company operates, as well as their knowledge of the relevant financial reporting framework, PCAOB standards and rules, SEC rules and regulations, and their experience in applying the standards, rules, and regulations. The engagement partner should also determine whether he or she can adequately communicate with the other auditors and/or gain access to their work papers.

Regardless of the Board's intent with this question, we feel clarification is warranted within the proposed definition of "lead auditor" to further reinforce the consideration of language and cultural norms inherent in any audit which includes other auditors.
Question 21:

The proposed requirements for determining whether a firm's participation is sufficient for it to serve as the lead auditor depend on the risks of material misstatement associated with the portion of the financial statements audited by the firm. (These requirements would apply regardless of whether the other auditor is from the same audit network as the lead auditor.) Should the Board consider alternative or additional criteria for determining whether a firm's participation is sufficient? For example, should the Board impose a quantitative threshold or specify criteria covering the locations of the company's principal assets, principal operations, or corporate offices? How would such criteria help address specific issues in practice?

Response:

The firm's consideration of its direct audit coverage over the risks of material misstatement appears an appropriate determination for evaluating the sufficiency for the firm to serve as lead auditor. The proposed language appears intentionally broad so as to allow for the many varying situations and circumstances, as well as variables that are considered in such a determination, and appropriately allows for auditor judgment in its final assessment.

While the Board could consider offering additional criteria for auditor consideration when making this determination, we feel that if the language is too specific (which can arise when quantitative thresholds are added) it can restrict appropriate analysis of the qualitative factors involved when making such a determination. If a coverage threshold requirement of a certain level of locations, total assets or revenue is communicated, an appropriate analysis of the true risks of material misstatement could be diminished. For example: there certainly could be situations where a significant portion of the company's assets may be audited by another auditor because they are located in a foreign jurisdiction due to the location of the company's manufacturing process; however the company's US based operations (covered by the lead auditor) contain significant revenue streams requiring complex accounting (multiple deliverables, licensing, etc.) and therefore house the most significant risks of material misstatement. Thus, a threshold of certain levels of assets directly audited by the lead auditor may be seen as overshadowing the consideration of the true coverage of auditing the significant risks of material misstatement.

We believe that while certain consideration language in the proposal may assist the firm in determining sufficiency, additional criteria or thresholds could result in unintended conclusions or outright violations of standards.

Question 22:

What are the practical challenges with applying the proposed engagement partner's determination of the firm's sufficiency of participation in the audit? What changes, if any, should be made to address those challenges?

Response:

The primary practical challenge with applying the proposed engagement partner's determination of the firm's sufficiency of participation in the audit lies primarily with adequate documentation of auditor judgment. Whenever leeway for auditor judgment is given, there is the potential for different applications and varying conclusions. In addition, objective judgment is obviously affected by the desire to serve as the lead auditor. However, in most areas this judgment is necessary because of the numerous variables that must be considered and also due to the fact that no situations and circumstances are exactly alike.

The Board could consider a documentation requirement where the firm qualitatively assesses the positive and negative evidence of the firm's sufficiency to serve as the lead auditor, which includes conclusion and clear basis for such a conclusion. This documentation could be prepared as part of the engagement acceptance process and maintained in the audit file.

Question 23:

Are there situations in practice in which the proposed sufficiency determination would cause changes in the firm serving as lead auditor? If so, what are these situations? What are the potential effects of those changes, including potential effects on costs and audit quality? What changes to the proposal, if any, would mitigate these issues?

Response:

As proposed, the sufficiency determination could result in changes in the firm serving as lead auditor if the current level of involvement by the lead auditor is determined to be inadequate under the new standard. This could result in increased costs incurred by the lead auditor. Particularly, if increased involvement by the lead auditor replaces work performed by local auditors, the added travel time and potentially higher rates would result in higher costs and fees. Alternatively, if a change in lead auditor is required, the company will bear the incremental costs of such a transition.

In regards to audit quality, increased involvement by lead auditors should, in theory, improve audit quality. There is the potential, however for the lead auditor to continue to limit its involvement. Due to fee pressure invoked by the company, there is the potential that the lead firm may try to keep these costs to a minimum and, as a result, not audit as thoroughly as another auditor might.

Question 25:

Are the proposed requirements for the lead auditor to hold discussions with and obtain information from other auditors and referred-to auditors to identify and assess the risks of material misstatement appropriate and clear? Are there any practical challenges with this requirement? If so, what are they, and how could the proposed requirements be revised to address the challenges?

Response:

We believe the proposed requirements for the lead auditor to hold discussions with and obtain information from other auditors and referred-to auditors are appropriate and clear, as well as prudent. The lead auditor should establish early, and maintain throughout, clear lines of communication with all other auditors participating in the audit.

Question 26:

Are the additional proposed requirements for the lead auditor when planning an audit that involves other auditors, which address independence and ethics; registration; and qualifications of and communications with other auditors, appropriate and clear? Are there requirements that should be added to or removed from Appendix B of AS 2101? If so, what are those requirements and why should they be included or excluded?

Response:

We believe the additional proposed requirements for the lead auditor when planning an audit that involves other auditors are appropriate and clear, as well as prudent. These activities should be adequately documented within the audit files.

However, we also note that some out-of-network other auditors might be reluctant to provide the lead audit firm with details regarding local independence, ethics, or training.

Question 27:

The proposed amendments require the lead auditor to gain an understanding of each other auditor's knowledge of the SEC and PCAOB independence and ethics requirements and their experience in applying the requirements. Are there any additional costs or practical challenges associated with this? If so, what are they, and how could the proposed requirements be revised to mitigate these issues?"

Response:

We believe the proposed amendments surrounding gaining an understanding of the other auditor(s) knowledge of the SEC and PCAOB independence and ethics requirements, and their experience in applying the requirements are prudent. There could be scenarios when additional costs and challenges are incurred, particularly if the other auditor(s) do not meet appropriate independence and ethics requirements. Or, there could be situations in which there are no viable other auditor(s) located in or near the city of the entity being covered by the other auditor, thereby requiring the lead auditor to perform the audit.

Question 28:

Should the requirement for the lead auditor to gain an understanding of the knowledge, skill, and ability of the other auditors be limited to engagement team members who assist the lead auditor with planning and supervision?

Response:

It seems appropriate to limit this understanding to team members who assist the lead auditor with planning and supervision, however the lead auditor should also obtain a clear understanding of the level of involvement, review and quality assurance practices of these other auditors and applicable team members. The lead auditor should take measures to ensure the vetted individuals are performing an appropriate supervisory role.

However, we also note that some out-of-network other auditors might be reluctant to provide the lead audit firm with details regarding local independence, ethics, or training.

Question 29:

Are the proposed requirements to determine that the lead auditor is able to communicate with the other auditors and gain access to their work papers appropriate and clear? If not, what changes to the proposed requirements are necessary?

Response:

The proposed requirement to determine that the lead auditor can communicate with the other auditors is clear. We recommend some additional explanatory material to clarify whether the communication needs to be written, oral, or if email communications can suffice. Due to language and time zone differences, email is a widely used communication tool and in certain situations it can appropriately serve as the correct means for a two-way dialogue. We recommend that the standard or release notes acknowledge that email communications can be acceptable.

Question 30:

Are the proposed amendments to the requirements for determining the locations and business units at which audit procedures should be performed clear and appropriate?

Response:

The language in AS 2101.14 is clear, and we agree that it allows for the lead auditor to hold discussions and obtain information "as necessary" because each situation and entity is uniquely different and will require auditor judgment to determine the correct level of information necessary. We recommend that language requiring that "the lead auditor should hold discussions with…the other auditors" be changed to "communicate" to align with practice and the other language where the audit team is required to determine that they can communicate with the other auditor instead of "discuss."

Question 31:

Are the proposed procedures to be performed by the lead auditor with respect to the supervision of the other auditor's work appropriate and clear? If not, how should the proposed requirements be revised?

Response:

The procedures are clear, but we recommend that the requirement at AS 1201.b2b be modified to allow the lead auditor and the other auditor more flexibility in the development and review of the nature, timing and extent of audit procedures to be performed. Both parties will need information from the other in order to execute the appropriate response for the risks present, which requires a more collaborative, less linear flow of information in the audit engagement. The lead auditor may not know of the correct procedure set for the other auditor to perform until after the other auditor has already begun work based on information learned in other portions of the audit.

Question 32:

Currently, AS 1205.12 describes certain procedures that the lead auditor should consider performing when using the work of the other auditor (e.g., visiting the other auditor), which are not included in the proposal. Should the lead auditor be required to perform these or any other procedures? If so, what additional procedures should be required?

Response:

We believe there is some value in the lead auditor visiting the other auditor, but it should not be a requirement. The lead auditor, based on his/her judgment, should consider risk of material misstatement at business units audited by the other auditor to determine whether a visit is necessary.

Question 33:

Are the requirements for the written report from the other auditor sufficiently clear? Are these requirements appropriately scalable to the nature and significance of the work referred to the other auditor? Would the proposed requirement for the lead auditor to obtain a written report from the other auditor result in a significant change in practice? If so, what is the estimated economic impact (e.g., costs and benefits) of this change?

Response:

The requirement to obtain a written report, as drafted in the proposal, is not clear. Currently, in practice, there is no consistency as to what the content of the report should include. We believe, it would be helpful if the Board could provide some guidance as to what exactly this "report" is to say. For example, should the report include an opinion paragraph? We believe providing auditors with guidance will promote consistency in practice.

Question 34:

Is the scalability of the proposed supervision amendments clear and appropriate? If not, what changes are necessary? Are the proposed requirements for situations in which the lead auditor directs another auditor to perform supervisory procedures with respect to a second other auditor on behalf of the lead auditor clear? If not, how should the proposed requirements be revised?

Response:

We think allowing the lead auditor the flexibility to choose the correct supervision scenario is the most effective for an audit. The other auditor may have a better understanding and knowledge of the items the secondary other auditor is performing work over, in which case the lead auditor is not best suited to be the only reviewer. We think allowing for as much flexibility as possible will yield the greatest effectiveness in these situations.

Question 41:

The proposed requirement in AS 1215.19A is designed to provide additional information about the review of working papers performed by the lead auditor. Is the proposed requirement appropriate and clear? Why or why not? What other information about the review of the working papers performed by the lead auditor would be appropriate?

Response:

The proposed requirement for documentation is clear and appropriate. Documenting the review of other auditor work papers provides sufficient evidence of the supervision exercised by the lead auditor over other auditors. The evidence of what was reviewed, the person who reviewed the work paper and when it was reviewed is reasonable. The proposed standard indicates a description of the work papers that should be included. We would assume this description would be a brief notation as to the essence of the work paper and not a summary of the work paper. If the Board expects the description to be detailed or lengthy, we would request that this guidance be explicitly included within the standard.

Question 42:

The proposal does not require that the lead auditor make a list of all documents in the other auditor's files, including those not reviewed by the lead auditor. Should the lead auditor be required to document work papers in the other auditor's files that the lead auditor has not reviewed? Would such a requirement improve audit quality? What potential costs or unintended consequences, if any, would be associated with such a requirement? What practical difficulties would there be in complying with such a requirement?

Response:

We do not feel that audit quality would be improved nor would the benefit be significant for the lead auditor to document every work paper in the other auditor's file. The requirement in AS 1215.9A is sufficient in which it requires the lead auditor to document each work paper reviewed. However, the other auditor may have statutory audit work papers, tax work papers or other items in the audit file that are neither pertinent nor helpful to the lead auditor. We feel the cost of documenting every work paper would exceed any marginal benefit. The other auditors may have hundreds or thousands of work papers that may be performed for statutory reasons or stand-alone audit purposes that may not be material or relevant to the lead auditor. Due to these reasons, we do not believe a complete inventory of work papers included in other auditors' files need to be evidenced in the lead auditor work papers.

Question 43:

In addition to the information currently in AS 1215.19, should the office issuing the auditor's report be required to obtain, review, and retain other important information supporting the other auditor's work, e.g., (1) information about related parties or relationships or transactions with related parties previously undisclosed to the auditor or determined to be a significant risk; or (2) information about significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature?

Response:

If another auditor performs audit procedures and documents significant transactions that are outside of the normal course of business or are unusual, we believe that this information should be sufficiently documented in the lead auditor's work papers. We believe that the lead auditor should either retain the information from the other auditor or complete its own documentation related to the significant transaction. We do not believe that it is necessary for the lead auditor to retain information related to related parties or relationships that are not previously disclosed. First of all, this does not provide a level of significance such as significant or material related party transactions. Second, we feel that it is appropriate for this information to be documented within the lead auditor or other auditor work papers, but it is not necessary to be in both locations.

Question 44:

In addition to the information currently in AS 1215.19g about all significant deficiencies and material weaknesses in internal control over financial reporting, should the office issuing the auditor's report be required to obtain, review, and retain information about all control deficiencies identified by other offices of the firm and other auditors?

Response:

As required by AS 2201 paragraph 62 "The auditor must evaluate the severity of each control deficiency that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses." Based on this requirement, we believe that all deficiencies should be communicated to the lead auditor. The lead auditor would not be able to evaluate all deficiencies to determine if the combination would lead to a material weakness if these deficiencies were not communicated. Therefore, we feel that the other auditor should provide documentation of all deficiencies to the lead auditor.

Question 46:

Are there any additional engagement quality review procedures that should be required for audits that involve "other auditors" or "referred-to auditors" (as proposed to be defined)?

Response:

We do not believe that any additional review procedures should be required for the engagement quality reviewer.

Question #47:

Are the objectives of the proposed new standard clear and appropriate? If not, what changes are necessary?

Response:

We suggest broadening the objectives. The proposed objectives are focused on two elements of this process: 1) Consolidation or combination of accounts and 2) Preparation of the lead auditor's report. We feel the objectives should also cover the assessment of the referred-to-auditor's independence and competence and proper communication between the lead auditor and referred-to-auditor to clarify roles and responsibilities.

The requirements and the introduction appear reasonable. Therefore, this response suggests improved alignment between the objectives with the rest of the proposed standard.

Question #48:

Are the proposed requirements for performing procedures with respect to the audit of the referred-to auditor clear and appropriate? If not, what changes are necessary?

Response:

The proposed requirements appear clear and appropriate.

Question #49:

Are the conditions included in paragraph .06 of the proposed new standard clear and appropriate? Are there other conditions that should be met for the lead auditor to divide responsibility with a referred-to auditor?

Response:

The conditions in paragraph .06 are clear and appropriate.

Question #50:

Paragraph .07 of the proposed new standard describes the lead auditor's course of action in situations in which the lead auditor cannot divide responsibility. Are the requirements in this paragraph clear and appropriate? Why or why not? Are additional requirements necessary for such situations?

Response:

The proposed requirements appear clear and appropriate.

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Question #51:

An unintended consequence of the Board's proposal, described earlier in this release, is the potential increase in the use of the divided responsibility model by auditors. Should the Board prohibit divided responsibility arrangements or impose further limitations on them, such as limiting them to equity method investees or situations in which the referred-to auditor covers only a small portion of the consolidated assets or operations? If so, what would be the costs and benefits of such a prohibition or limitation?

Response:

It would be helpful for the Board to include its insight into appropriate circumstances for the proposed new standard's use. Such language was included in AS 1205 for engagements with divided responsibility. Limitation of its use is otherwise not deemed necessary.

While we understand the Board's concern that the lead auditor may prefer to divide responsibility with another firm rather than coordinate with and supervise overseas teams, we feel there are inherent practicalities which will already limit this model's use.

We believe firms are more likely to use affiliated firms within their global accounting firm networks to perform 'other auditor' work. GNFs and NAFs spend significant time and resources on common branding. Such "one firm" marketing is seen as an asset within the marketplace. Dividing responsibility between firms in the same network may adversely impact branding.

We acknowledge not all firms are party to such networks and may utilize unaffiliated firms in the performance of audits. However, as the Board noted within its release, U.S. and non-U.S. GNFs audited 56% of public companies trading on U.S. exchanges, which accounted for over 99 percent of global market capitalization. Therefore, we feel this viewpoint is representative of the majority of the profession.

Additionally, it's preferential to companies to engage one network with closely branded firms and one overarching system of quality control. As compared to engaging multiple unaffiliated firms, this arrangement eliminates redundancies in the audit process, thereby eliminating time demands of the companies' personnel by its auditors.

Lastly, lead auditors will be reluctant to appear unable to coordinate with other firms. Effective coordination and collaboration is seen as a value added component by companies given the delays and communication issues which can be common in such arrangements. Dividing responsibility may be seen as an inability to collaborate with other firms.

In summary, we feel the demands and expectations of companies will outweigh the lead auditors' desire to increase its use of the divided responsibility model.

Question 52:

Are additional requirements, including supervisory requirements, necessary to describe responsibilities of the lead auditor in situation in which the lead auditor divides responsibility for the audit with another accounting firm? Are there any other situations that would present challenges with the application of the proposed requirements?

Response:

We do not believe any supervisory requirements should be added to the proposed standard for the lead auditor related to the situation when the lead auditor divides responsibility for the audit with another accounting firm. This situation relates to when responsibility for the audit is divided. If the lead auditor has supervisory requirements, it would complicate the situation and potentially confuse the public since supervisory responsibilities would go beyond a division of responsibility. If the lead auditor supervised the other auditor that has responsibility for a portion of the audit, it could lead someone to determine that the lead auditor did not divide responsibility and may have responsibility over the entire audit. This is contrary to the division of responsibility included in the standard.

Question 53:

Is superseding AI 10 appropriate, or is the interpretation necessary to fully describe the auditor's responsibilities under PCAOB standards?

Response:

We believe that superseding AI 10 is appropriate and that the concepts in AI 10 are included in the proposed standard.

Question #54:

Are the other proposed amendments relating to inquiries about professional reputation and standing of other auditors appropriate and clear in the context of each requirement? If not, what further amendments should the Board consider making to this requirement to improve its clarity?

Response:

We recommend that the Board clarify its expectations of lead auditors when other auditors are deemed to have insufficient experience and knowledge. Is increased oversight sufficient, or does the Board expect the lead auditor to engage a different firm with a higher level of relevant experience and knowledge? Or should the lead auditor provide the necessary resources to complete the audit.

Question 57:

Paragraph .10d of AS 1301 (currently Auditing Standard No. 16), Communications with Audit Committees, describes requirements regarding the lead auditor's communication to the audit committee of certain information about the other auditors. Should the lead auditor's communication to the audit committee with respect to the lead auditor's or other auditors' responsibilities in an audit be more specific than is currently required? If so, what additional information should the lead auditor communicate?

Response:

We think what is required in 10d and e is sufficient. If you delve too deeply into specific high risk areas, etc., then you invite controversy over auditor judgments. Paragraph 10e already asks the lead auditor to state the basis for the lead partner's determination that their supervision of other firms was sufficient. We believe this information would be sufficient.

Question 58:

Because the Board's proposal focuses on audit engagements, it does not include amendments for engagements other than audits. Should the proposal include changes for reviews of interim financial information under AS 4105, Reviews *of Interim Financial Information (currently AU sec. 722, Interim Financial Information) that involve "other auditors" or "referred-to auditors" (as proposed to be defined)? If so, what additional changes are needed?*

Response:

Yes, this should also cover interim reviews.

Question 59:

Is it sufficiently clear when AS 1201 (as proposed to be amended) or proposed AS 1206 – as opposed to AS 2503 – would apply to an audit of a company's equity method investment or other investments in an entity whose financial statements are audited by another accounting firm? If not, what change or guidance is needed?

Response:

We think it is clear. AS 1206- page A2-1, footnote 3, states the definition of financial statements that include- "through consolidation or combination- the financial statements of the company's business units." To add clarity, you could state the referred to auditor would not include the auditor of equity method investments or other investments whose financial statements are audited by another accounting firm.

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 R. Javorcic, CPA
Chair, Audit and Assurance Services Committee

Scott Cosentine
Vice Chair, Audit and Assurance Services Committee

ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2016 – 2017

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:

Timothy Bellazzini, CPA	Sikich LLP
Todd Briggs, CPA	RSM LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Heidi DeVette, CPA	Johnson Lambert LLP
Eileen M. Felson, CPA	PricewaterhouseCoopers LLP
Michael R. Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Timothy Jipping, CPA	Plante & Moran PLLC
John Offenbacher, CPA	Ernst & Young LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Richard D. Spiegel, CPA	Wipfli LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Regional:

Jennifer E. Deloy, CPA	Marcum LLP
Barbara F. Dennison, CPA	Selden Fox, Ltd.
Genevra D. Knight, CPA	Porte Brown LLC
Andrea L. Krueger, CPA	CDH, P.C.

Local:

Matthew D. Cekander, CPA	Doehring, Winders & Co. LLP
Lorena C. Johnson, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Trimarco Radencich, LLC
Jodi Seelye, CPA	Mueller & Company LLP
Joseph Skibinski, CPA	

Industry:

Matthew King, CPA	Baxter International Inc.

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Staff Representative:

Heather Lindquist, CPA	Illinois CPA Society