



August 30, 2017

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

Re: PCAOB Rulemaking Docket No. 044

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 *Auditing Standards for Auditor’s Use of the Work of Specialists* (Docket Matter No. 44), dated June 1, 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 1105, AS 1201 as well as rescinding and replacing AS 1210, AI 11, AI 28 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 the work of specialists that the Board should address? Are there additional concerns that the Board should seek to address?

Response: We agree with much of the characterization of the existing audit practice as listed in the release notes. However, the description starting on page twelve that differentiates between “smaller firm practices” and “larger firm practices” unnecessarily and unfairly implies that small firms do not perform procedures as thoroughly as large firms. The PCAOB acknowledges that the small firms do follow PCAOB standards so the delineation unfairly depicts the smaller firms as performing lower quality engagements. Small and large firms audit different types of entities with risk profiles that vary greatly, these differences are not acknowledged in the PCAOB’s notes. A similar concept is depicted on page 42 in footnote 72. Our preference is to delete the discussion on page twelve and thirteen.

Question 2: Do these proposed amendments to existing standards appropriately address the reasons to improve standards discussed above? Are the reasons for having separate standards for using the work of a company's specialist, an auditor-employed specialist, and an auditor-engaged specialist clear?

Response: The proposed amendments as discussed in the notes do appear to appropriately address the reasons to improve the standards and for dividing the standard based upon who is engaging/employing the specialist. The table on page seven is particularly helpful when understanding the changes.



Question 7: The Board requests comment generally on the potential costs to auditors and the companies they audit. Are there additional costs the Board should consider?

Response: We urge the Board to remain mindful of firms of all sizes when drafting standards and publishing release materials. The Costs section, beginning on page 41, notes differences in auditing methodologies by smaller firms, which are currently allowable and follow the current set of auditing standards. Continually pointing out items that “smaller” firms are not performing even though not required by professional standards could tarnish the reputation of smaller firms unnecessarily. We kindly ask the Board not to include implicit expectations of performance in the release notes, instead we request the Board to include all requirements in the proposed standard itself.

Question 9: The Board also requests comment on the potential unintended consequences of the proposal on competition in the market for audit services. How and to what extent could competition be affected by the proposal? Would audit fees be meaningfully affected by the proposal? Would the availability of qualified auditors in the market be meaningfully affected by the proposal?

Response: Smaller firms may not respond to audit opportunities that require an auditor engaged specialist or when they don't have the expertise to when a company specialist is used. However, in certain industries (i.e. construction or mining) a smaller firm could have the necessary expertise internally to service these industries. Audit fees could increase for the smaller firm, if needed to engage a specialist. However, we don't believe the availability of qualified auditors would be affected by the proposal.

Question 12: The Board requests comment generally on the analysis of the impacts of the proposal on EGCs. Are there reasons why the proposal should not apply to audits of EGCs? If so, what changes should be made so that the proposal would be appropriate for audits of EGCs? What impact would the proposal likely have on EGCs, and how would this affect efficiency, competition, and capital formation?

Response: No, we believe the proposal should apply to EGCs. Typically, a specialist is used in connection with a significant account, estimate, or fair value measurement, regardless if the company being audited is an EGC. Higher quality audits and better investor information would result if the proposal applied to EGCs.

Question 13: Are there any factors specifically related to audits of brokers and dealers that may affect the application of the proposal to those audits?

Response: No, we believe the proposal should apply to brokers and dealers, particularly to carrying brokers and dealers that hold securities or funds for customers. Audit quality will increase from this proposal, as well as better information will be provided to customers.

Question 18: Does the proposed approach pose any particular challenges to auditors, such as for particular industries? If so, what are those challenges, and how could the proposed approach be modified to better take them into consideration?

Response: We do not believe the proposed approach poses any particular challenges to auditors, but will increase audit quality.



Question 19: Are the proposed requirements scalable as described? If the requirements are not scalable, what changes to the proposals would make them adequately scalable?

Response: We believe the proposed requirements, as described, are scalable.

Question 20: How would the proposed requirements for using the work of a company's specialist as audit evidence impact current practice? Describe any changes to current practice you foresee based on the proposed requirements.

Response: See response in question 18, above.

Question 21: Are the proposed requirements related to obtaining an understanding of the work and report(s) of the company's specialist(s) and related company processes and controls, in conjunction with obtaining an understanding of the company's information system relevant to financial reporting, clear and appropriate? Do such requirements belong in proposed Appendix B? If not, where should such requirements be included?

Response: Yes, we believe the proposed requirements related to obtaining an understanding of the work and reports of a company's specialist are important to a high quality audit.

Question 22: Are the proposed requirements for obtaining an understanding of and assessing the company specialist's knowledge, skill, and ability, and relationship to the company, clear and appropriate? Do these proposed requirements represent a change from current practice? If yes, how so?

Response: We believe the proposed requirement for obtaining an understanding of and assessing the company specialist's knowledge, skill, and ability is critical to the audit.

Question 23: The release provides examples of varying the nature, timing, and extent of audit procedures based on the factors described in the proposed requirements. Are the examples provided in the release clear and helpful? Are there additional examples from practice that the Board should consider?

Response: We believe the factors described in the proposed requirements are appropriate, clear, and helpful.

Question 24: Are the proposed requirements to evaluate the relevance and reliability of the company specialist's work clear and appropriate? Do the proposed requirements complement the requirements to evaluate the relevance and reliability of other audit evidence?

Response: We believe the proposed requirements to evaluate the relevance and reliability of the company specialist's work are clear and appropriate and complement the requirements to evaluate the relevance and reliability of other audit evidence.

Question 25: Does the proposed approach pose any particular challenges to auditors? If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?



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Response: The proposal contains a challenge to effective implementation and improved coordination with the specialist and others involved in the audit. This is an area of critical nature and where the profession can improve as noted by the Board. The language used at .C5c “the degree of responsibility” when referring to potential areas of performance for the auditor-employed specialist seems to unnecessarily shift the burden onto the specialist alone, in isolation from others like the engagement partner. The language can be construed to leave the specialist with an inappropriate amount of ownership for their area instead of ultimately with the partner where it lies. We encourage the Board to refer to the items in (1) – (3) as potential roles or areas for testing that the specialist could perform, rather than responsibilities. We do not want the teams to use this language as a means of abdicating “responsibility” to specialists and not understanding those items as noted throughout the proposal.

Question 26: Are the proposed factors to consider when determining the necessary extent of supervision clear? Are there other factors that the auditor should be required to consider when making this determination? If so, what are those factors and how should they be considered?

Response: We think the extent of supervision can also be influenced by the existing quality control framework established by the firm. This framework is established to address the quality control requirements and provides a basis for the auditor to understand the specialist and determine an appropriate course of action. The quality control structure can often dictate the level of reviews necessary with other firm specialists or additional reviewers. The standard should acknowledge these important and well-established means of review rather than have them exist in isolation.

Question 27: Is the extent of supervision in the proposed approach appropriately scalable to the size and complexity of the audit? If not, how can this be made more scalable?

Response: The extent of supervision does seem scalable to the size and complexity of the audit engagement. We agree with the proposal that the extent should be based upon the significance of the work and the risk of material misstatement. But, we think the proposal should contemplate the firm’s existing quality control system in a more explicit manner. The notion of “the knowledge, skill, and ability” is redundant to include in both Appendices at .C2(3) and in .C3. The auditor-employed specialist is part of the firm and subject to the firm’s existing system of quality control that ensures objectivity, independence, competence, etc. It seems unnecessary for the team to perform extra supervision of the specialist they are employing when these requirements are part of the firm’s system of quality control.

Question 28: Are the proposed requirements for establishing and documenting the understanding with the specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the specialist? If not, how could they be changed?

Response: The description in .C5 seems to imply that the auditor is “informing” the specialist of their role, responsibilities, and involvement. This language feels “one-way” rather than “two-way” in nature because it can be interpreted to mean that the team just tells the specialist what to do. Instead, we think the specialist, who understands the subject matter better than the team, should be involved and assist in determining their role using their deep subject knowledge and based upon the risk of material misstatement.



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Question 30: Are the proposed requirements for evaluating the work, including any report, of the auditor-employed specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?

Response: When using an auditor-employed specialist, we suggest adjusting the wording in AS 1201 Appendix C5 to remove the notion of a “report, or equivalent documentation” because the language connotes a formal, signed report as part of a formal assurance engagement. These specialists are part of the team and firm. We think the standards should allow for their documentation to be in the same fashion as any other engagement team member. The information noted in the “report” in the proposal can be sufficiently documented within the existing work program, or equivalent, already included as part of the firm’s methodology. The expectation for a formal report seems to discourage effective two-way communication rather than encourage greater collaboration.

Question 32: Does the proposed approach pose any particular challenges to auditors? If so, what are those challenges and how could the proposed approach be modified to better take them into consideration?

Response: In Appendix 3, it is mentioned that smaller firms may have difficulty in documenting the understanding of the engagement with the Auditor-Employed/ Auditor-Engaged specialist. We don’t believe this would have too much of an impact for a smaller firm to start recording this in a planning memo or form. We believe that smaller firms will have done some of this already.

Question 33: Does the proposed approach appropriately reflect the relationship between the auditor and an auditor-engaged specialist as compared to the auditor and an auditor-employed specialist? If not, how should the requirements be tailored to reflect that relationship? Are there any additional requirements needed when an auditor engages a specialist that are not contemplated in the proposed approach? Describe specifically any such requirements.

Response: We believe the revised standard and Appendices explain in detail the requirements and suggested method of handling those requirements for Auditor-Engaged and Auditor-Employed specialists.

Question 34: Is it clear how the proposed requirement for assessing the knowledge, skill, ability, and objectivity of an auditor-engaged specialist differs from the requirements for assessing the knowledge, skill, and ability of the company's specialist and the relationship of the company's specialist to the company? If not, how can the proposed requirements be changed to improve their clarity?

Response: Yes, this is clear.

Question 35: Does the proposed requirement to assess the objectivity of the auditor engaged specialist present any challenges to the auditor? If so, what are those challenges and how could they be addressed?

Response: The proposal contains a challenge to effectively obtain and/or have access to certain detailed and/or proprietary working papers that may have been used in developing the specialist’s conclusions. The challenge is the result of disparity among service providers in contractual practices across various industries and/or the legal/regulatory knowledge regarding the arrangements and our obligations in accordance with the proposed requirements.



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Question 36: Are the proposed requirements for establishing and documenting the understanding with the auditor-engaged specialist sufficiently clear and appropriate? Would they foster effective two-way communication between the auditor and the auditor-engaged specialist? If not, how could they be changed?

Response: Yes, with consideration of the challenge noted in response to Question #35.

Question 38: Are the proposed requirements for evaluating the work, including any report, of the auditor-engaged specialist appropriate and clear? Is the link between the establishment and documentation of the understanding with the specialist and evaluating the specialist's work or report clear?

Response: Yes, with consideration of the challenge noted in response to Question #35.

Question 42: Are the proposed conforming amendments in Appendix 2 appropriate and clear? Why or why not? What changes to the amendments are necessary?

Response: Yes, they are clear.

Question 43: In addition to the proposed conforming amendments in Appendix 2, are other conforming amendments necessary in connection with the proposed changes to AS 1105, AS 1201, and AS 1210?

Response: None noted.

The Committee greatly 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, CPA

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
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