ILLINOIS CPA SOCIETY

February 18, 2009

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

Ref: PCAOB Rulemaking Docket Matter No. 026

To Whom It May Concern:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee") is pleased to comment on the Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Conforming Amendments to PCAOB Standards.

The Committee is a voluntary group of CPAs from public practice, industry, education, and government. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

Following are the Committee's comments regarding specific items included in the proposed standards. The Committee considered the questions included in Appendix 9 in the Proposed Standards in developing our comments.

Audit Planning and Supervision

1. Paragraph 5 indicates:

> "The engagement partner is responsible for planning the engagement but may seek assistance from other members of the engagement team."

This paragraph seems to indicate that the engagement partner can plan the audit *without* involvement of other key members of the engagement team. It would seem appropriate to require that all key members of the engagement team (e.g. managers and seniors) are involved in the planning process and that the engagement partner must be actively involved in and assume overall responsibility for the planning process. It may also be appropriate to encourage, but not require, the involvement of specialists (e.g. IT specialists) throughout the audit planning process.

2. The note at the end of Paragraph 6 implies that the understanding with the client regarding the services to be performed on the engagement cannot change with changes in circumstances. There may be certain circumstances that may require changes to the services to be performed on the engagement.

3. In Paragraph 7, the last bullet point "The relative complexity of the company's operations" seems repetitive – the third bullet indicates that the auditor should evaluate the company's "operating characteristics".

4. In paragraph 7, should the auditor also consider adjustments proposed (recorded or unrecorded) to prior years' financial statements?

Identifying and Assessing Risks of Material Misstatement

1. In paragraph 13, the first bullet point refers to "public information" that is "relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of internal control over financial reporting". It would be helpful to provide some specific examples of the appropriate "public information" to be obtained and considered by the auditor.

2. Only some of the additional procedures in paragraph 13 are reasonable and appropriate. Reading publicly available information about the company, observing or reading transcripts of earnings calls, and obtaining an understanding of compensation arrangements are all procedures that most auditors should consider performing in connection with their audits and specifically requiring these procedures for all audits would likely not result in significant changes to most audit approaches. However, requiring a consideration of "obtaining information about significant unusual developments regarding trading activity in the company's securities" is rather vague and seems to place undue burden on the auditor to consider performing additional procedures related to an area in which the auditor lacks the proper resources or expertise to effectively complete such procedures. Any unusual activity should be discovered and investigated by the appropriate regulatory authority, not the auditor. Additional clarification related to the auditor's responsibilities in regard to obtaining information in regard to trading activity should be provided or the requirement to consider this item should be removed from the proposed standard.

3. Paragraph 46 discusses the key engagement team members that should be included in the discussion among engagement team members regarding risks of material misstatement. The proposed standards should also encourage, but not require, the involvement of specialists (e.g. IT specialists) in this discussion.

The Auditor's Responses to the Risks of Material Misstatement

1. Paragraph 45 seems to indicate that tests of details are required when performing substantive procedures in connection with responding to significant risks by

indicating “for significant risks, the auditor should perform substantive procedures, including tests of details that are specifically responsive to the risks”. Existing standards (AU sec. 329.09) indicate that substantive analytical procedures alone would <u>likely not be sufficient</u> responses to significant risks, but do not explicitly require tests of details. The auditor should have the ability to exercise professional judgment in the determination of the substantive testing approach to be used to respond to significant risks. Although tests of details would and should ordinarily be performed in connection with responding to significant risks, there may be situations for which substantive analytical procedures alone would be sufficient (in the auditor’s professional judgment) to respond to significant risks. The proposed standard should be updated to be consistent with the existing standard by indicating that substantive analytical procedures alone would <u>likely not be sufficient</u> responses to significant risks.

<u>**Evaluating Audit Results**</u>

1. Paragraphs 5a and 6 refer to a process called “overall review” in the context of evaluating the results and sufficiency of applied analytical procedures. The scope of the “overall review” is not sufficiently developed or explained in order to determine whether these procedures are incremental to those planned and applied in the audit of the financial statements. Further, this section provides little guidance on why it has singled out analytical procedures related to revenue in paragraph 8 as a required component of this undefined effort.

2. Paragraph 13 allows the auditor to designate a de minimis amount below which misstatements are clearly trivial and do not need to be accumulated. Paragraph 14 provides further guidance that infers that this amount should be applied to misstatements in the actual accounts and the financial statement disclosures. Without further guidance, it could be difficult to apply a quantitative de minimis threshold to potential misstatements of disclosure. We would request further clarification of the intent of the de minimis threshold related to potential disclosure misstatements.

3. Paragraph 15a refers to analysis and accumulation of misstatements which could be deemed to be material. Paragraph 5 indicates that this risk assessment relates only to the financial statement portion of the integrated audit. However, any conclusion made on materiality with respect to adjustments need to consider the evaluation around a material weakness in internal control over financial reporting.

4. Paragraph 19 indicates that the effects of uncorrected misstatements detected in prior years need to be considered in the evaluation of the financial statements as a whole. However, there is not guidance on how that consideration should be applied. Other sections of this Exposure Draft refer to SEC guidance when applicable. If the intent of this consideration was to include the guidance provided in SAB 108, it should be so referenced herein.

5. Paragraph 25 refers to the qualitative aspects associated with the company's accounting "practices." The phrase "practices" can be construed to mean a lot of things in addition to accounting policies. The intent should be clarified to refer specifically to policies unless there is a broader reference was intended.

6. In paragraphs 25-29, there is no reference to communication or dialogue with the company's lead corporate governance committee of the board of directors, presumably the audit committee. A dialogue with the company's audit committee around acceptable accounting policies is required and a critical part of the evaluation.

7. Paragraphs 30-32 are somewhat redundant to each other. The concept is essentially whether there has been appropriate consideration of fraud risks throughout and at the completion of the audit.

8. In paragraph 36b, it is unclear what the content of the audit procedures performed represents. A reading of the passage, without additional context, could be construed to refer to the entirety of the audit files on a particular engagement. If the reading is correct, this passage simply says that all audit work must be considered in the evaluation of the sufficiency and scope of audit evidence. This type of statement would be more applicable in a description of the proposed standard rather than one factor designed to achieve a relevant conclusion.

9. Paragraphs 39 and 40 imply that the audit of internal control is a somewhat parallel process to financial statement audit. Rather, as envisioned by AS 5, these audits are traditionally (and preferably) done on an integrated basis. Seems awkward that a risk assessment designed to address a financial statement audit (see paragraph 5) would then have a separate consideration for the audit of internal control over financial reporting.

<u>Audit Evidence</u>

1. Paragraph 10 includes footnote that references AU sec. 336, *Using the Work of a Specialist*. May also consider adding a reference to AU Section 324, *Service Organizations*, as some information "produced" by the company may come from a service organization.

<u>Proposed Conforming Amendments to PCAOB Standards</u>

1. In AU Sec. 9326 "Evidential Matter" Auditing Interpretations of Section 326" we recommend that you modify your suggested change to the third and fourth sentences of paragraph .03 to maintain the theme of the other conforming amendments. Instead of stating "the kinds and competence of available evidential matter" we suggest the wording be modified to "the kinds and appropriateness of available evidential matter" since most references to the term competent has been replaced with appropriate.

2. In the suggested change to paragraph .80 of AU Sec. 316 “Consideration of Fraud in a Financial Statement Audit”, the Board has replaced the prior wording with new wording discussing the absence of or deficiencies in controls that address fraud risks. We recommend the Board consider modifying its suggested wording from “represent significant deficiencies” to “represent significant deficiencies or material weaknesses”. We believe that a lack of controls related to fraud could elevate to the level of a material weakness.

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,

Jon Hoffmeister

Jon R. Hoffmeister
Audit and Assurance Services Committee

APPENDIX A

ILLINOIS CPA SOCIETY
AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2008 – 2009

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

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

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Peggy L. Brady, CPA	McGladrey & Pullen LLP
Matthew L. Brenner, CPA	PricewaterhouseCoopers LLP
Jeffrey A. Gordon, CPA	KPMG LLP
Jon R. Hoffmeister, CPA	Clifton Gunderson LLP
Neil F. Finn, CPA	Deloitte & Touche LLP
William P. Graf, CPA	Deloitte & Touche LLP
Michael J. Pierce, CPA	McGladrey & Pullen LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP
Medium: (more than 40 employees)	
Damitha N. Bandara, CPA	Blackman Kallick LLP
Sharon J. Gregor, CPA	Selden Fox, Ltd.
Stephen R. Panfil, CPA	Bansley & Kiener LLP
Jennifer E. Sanderson, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Small: (less than 40 employees)	
James R. Adler, CPA	Adler Consulting Ltd.
Scott P. Bailey, CPA	Bronner Group LLC
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly P.C.
Ludella Lewis	Ludella Lewis & Company
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.
Industry:	
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Janis D. Potter, CPA	MTL Insurance Co.
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