



August 31, 2015

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 Supplemental Request for Comment: *Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (Docket Matter No. 29), dated June 30, 2015. 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.

We respectfully refer the Board to our previous Comment Letter dated February 4, 2014 regarding Docket 29. Many of the primary comments therein continue to be applicable in regards to this supplemental request. In summary, our Committee continues to believe that disclosure of the engagement partner’s name and of certain other participants in the audit would not provide any appreciable investor protection, or enhance audit quality. Some of our more significant points raised in our prior letter include the following:

- Audit firms and partners already feel highly accountable for the quality of the work they control, perform and supervise.
- The proposed disclosure could diminish the understanding of investors and users by distorting the role of the engagement partner and that of the audit firm and other participants.
- Inferences made by users from linking engagement partners to specific auditor’s report modifications and/or restatements may not be accurate or at least will not be well-informed.
- Issuers may start objecting to partners that are historically associated with modified or adverse opinions even though such results may be signals of higher quality audits.
- The proposed disclosure will increase litigation concerns and perhaps result in less willing audit participants.
- There are many practical issues with trying to properly identify and accumulate ‘audit’ hours among various participants in an audit.
- Percentage of audit hours often does not reflect the relative significance of a particular person’s participation in an audit.
- We believe that it is the firm that is ultimately responsible for ensuring audit quality, not only the individual engagement partner.

However, if such disclosures are to be mandated, we agree that inclusion in a new PCAOB Form AP, as opposed to within the auditor’s report or an appendix thereto, is more appropriate and will garner most of the perceived benefits of such disclosures while reducing the potential adverse unintended consequences of such disclosures.

The Committee is pleased to respond to the 12 specific questions posed by the Board:

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor’s report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?



While we continue to believe that most engagement partners and public accounting firms already are highly accountable for their work, we believe there is no appreciable difference in the perceived increase in accountability between the alternative disclosure locations. In regards to transparency, only the incremental effort that investors make to retrieve the information from the Board's website would reduce immediate transparency. We note though, that it is the likely-to-be developed databases that link audit participant names to other metrics - such as restatements and going concern modifications - which companies and investors might become more interested in. As such, the location of just the audit participant names will not be as relevant. Similarly, it is the databases that will likely drive investors' and others' use of the information, and as such, its location would not impact that use.

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

We are not aware of any other special considerations. As described in the release, we would expect only a small increase in costs of disclosures (excluding legal-related costs) in Form AP versus in the auditor's report.

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

While we are not attorneys, we are not aware of any incremental liability concerns in using Form AP. We continue to believe that public disclosure of engagement partner names and names of other audit participants – regardless of the disclosure's location – will be perceived to increase potential liability and may deter some partners and firms from practicing under the Board's standards.

While not directly on point to this question, when audit committees or management, in their good faith, engage an audit firm and a particular engagement partner and/or agree to a particular other participant in the audit, they may become susceptible to incremental liability exposure regarding their fiduciary responsibilities if they are aware of any adverse history regarding such persons – even if they have fully vetted the circumstances surrounding that adverse history and deemed it irrelevant to the performance of a high quality audit. In this regard, issuer costs might increase with expanded due diligence by audit committees and management to protect against this risk and/or to explain their due diligence procedures and conclusions to investors and others.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

We do not believe that many auditors or firms would make the voluntary disclosures in their auditor's reports, unless their clients encourage such disclosures – which would potentially be the case when the engagement partner has a known/perceived good reputation and/or when there are no or very few other participants in the audit (which often is perceived as an indicator of a higher quality audit). Of course, the engagement partner's reputation or the above perception does not have any relevance to the actual quality of the audit in question. Additionally, voluntary disclosure will create unnecessary differences between reports, which may increase rather than reduce investor confusion. For these reasons, consideration should be given to prohibiting this voluntary disclosure.



5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

Users would likely want functionality to search the database of Form APs and aggregate findings, by partner, by company, by audit firm, by other participants and ultimately within a defined period. As described above, we believe that third-party vendors will likely develop databases that link the information included on Form AP to other information regarding auditor's reports, such as those that indicate restatements, going concern modification or material weaknesses in internal control. The Board might mandate or recommend that issuers provide clear instructions to users in their filings on how to access the Board's website and/or other third party websites that eventually develop their own databases.

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (*e.g.*, 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

Consideration might be given to requiring or allowing all Form APs (excluding those in first time filings) related to auditor's reports issued in one particular month to be filed by the end of the subsequent month as a way for audit firms and the Board to better manage the process.

Another alternative is to change the filing deadline to 45 days to correspond with the archiving date rules. Particularly because the perceived benefits of the disclosures on Form AP will not be as great in the early years as in later years when cumulative data becomes available, an extension of time in the first year is advisable. In comparison of the 10 day requirement to file Form AP in an IPO situation to the 21 day requirement to have the IPO document on file before a roadshow begins, it seems that the audit firms could use more days in order to compile and report the required information than the users would need to retrieve and consider it. As such, perhaps 14 days is a more appropriate deadline for filing Form AP in those circumstances.

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

We believe it is generally appropriate to not require disclosure of nonaccounting firm participants in the audit. However, in the intended spirit of the potential rule-making, such disclosure might be mandated only when the auditor, in his good faith estimate, believes that one or an aggregate of nonaccounting firm participant(s) provide more than a minimum level of assistance in the audit (*e.g.*, greater than 10% of total hours if hours continues to be the disclosure metric). [Note that we continue to believe that it could be quite arduous for an accounting firm to determine the total audit hours and audit hours incurred by others with any appreciable accuracy.] In any case, we



agree with the tailored disclosure which would exclude disclosure of nonaccounting firms controlled by or under common control with the accounting firm issuing the auditor's report. Incremental description/definition of 'control' would be beneficial, perhaps including known examples of organizational structures that do and do not typically result in control or common control.

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

We do not believe there to be any appreciably different impact or special issues related to the proposed disclosures or their location for EGC's compared to other issuers and their auditors. For example, audit committees and management of EGC's would be expected to do the same level of due diligence on selecting their auditor as other issuers regardless of these proposed rules. Investors and potential investors of EGC's would likely evaluate the proposed disclosures similarly. If that evaluation is negative, perhaps EGCs will have a more difficult time getting appropriate investors, which is contrary to the establishment of EGC's in the first place.

9. Does Form AP pose any specific issues for brokers, dealers, or other entities? If so, what are those issues? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard?

We are not aware of any specific issues for brokers, dealers or other entities.

10. Are the rules to implement Form AP, the instructions to Form AP, and the amendments to AU sec. 508 included in Appendix 1 clear and appropriate? Why or why not?

Generally, yes. However, it is not clear whether the principal auditor in a divided audit situation needs to make disclosures in Form AP in regards to other accounting firms that participated in the conduct of the named other auditor's auditing procedures.

11. Are there additional economic considerations associated with mandated disclosure, either in the auditor's report or on Form AP that the Board should consider? If so, what are those considerations? The Board is particularly interested in hearing from academics and in receiving any available empirical data commenters can provide.

We have not gathered any empirical data in this regard.

12. Assuming the Board adopts a rule during 2015, would it be feasible to make the requirement, either in the auditor's report or on Form AP, effective for auditors' reports issued or reissued on or after June 30, 2016, or three months after the SEC approves the requirements, whichever is later? How much time following SEC approval would firms need to implement the requirement either in the auditor's report or on Form AP?

Particularly the 3 months timing may be challenging for certain accounting firms to develop the necessary internal practices to appropriately gather the necessary data to start filing compliant Form APs. A minimum 6 month period between formal adoption and initial filings is more appropriate. Disclosure in each auditor's report may be less time consuming for most accounting firms, although each would still have to develop applicable internal guidance on how to accumulate the required information.



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,

Elizabeth J. Sloan, CPA

Chair, Audit and Assurance Services Committee

James R. Javorcic, CPA

Vice Chair, Audit and Assurance Services Committee



APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2015 – 2016

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
James J. Gerace, CPA	BDO USA, LLP
Michael Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
John Offenbacher, CPA	Ernst & Young LLP
Matthew Rotta, CPA	McGladrey LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

Regional:

Jennifer E. Deloy, CPA	Frost, Rittenberg & Rothblatt, P.C.
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	Trimarco Radencich, LLC
Richard D. Spiegel, CPA	Steinberg Advisors, Ltd.

Industry:

Matthew King, CPA	Baxter International Inc.
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Educators:

David H. Sinason, CPA	Northern Illinois University
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Staff Representative:

Ryan S. Murnick, CPA	Illinois CPA Society
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