



September 29, 2015

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the Proposed Statement on Auditing Standards, Amendment to Statement on Auditing Standards No. 122 section 700, *Forming an Opinion and Reporting on Financial Statements*. 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.

The Committee understands there are two goals of the proposed standard and will respond to each issue separately. In the *Explanation of Proposed Amendment*, the first goal (Issue 1) is to clarify that auditors, who conduct audits under PCAOB standards when those audits are outside the jurisdiction of the PCAOB, must also comply with GAAS. The second goal (Issue 2) is to require the audit report to follow the layout and wording required by PCAOB auditing standards, amended to indicate the audit was also conducted in accordance with GAAS, when the auditor plans to refer to the standards of the PCAOB in addition to GAAS.

Issue 1

The Committee commends the Auditing Standards Board for being the first standard setter to address auditing and reporting under multiple sets of standards. AU 9508 addressed the issue of reporting in accordance with GAAS and International Auditing Standards. AU-C Section 700.42 and .43 acknowledges that auditors may conduct an audit in accordance with the International Standards on Auditing, the PCAOB, and Government Auditing Standards in addition to GAAS. The IASB has recently issued ISA 700 Revised, which addresses auditing and reporting in accordance with both auditing standards of a specific jurisdiction (the national auditing standards) and the International Standards on Auditing. The PCAOB proposed standard, Release No. 2013-005 Appendix 3, specifically addresses auditing and reporting in accordance with both auditing standards of the PCAOB and International Standards on Auditing.

The proposed language in the amendment says, “When an auditor conducts an audit in accordance with the standards of the PCAOB, and the audit is not within the jurisdiction of the PCAOB, the AICPA Code of Professional Conduct requires the auditor to also comply with GAAS in the conduct of the audit.” In the proposed paragraph .44, there are footnote references to specific sections of the AICPA Code of Professional Conduct; however, the Committee does not believe these sections explicitly address what is required when an entity outside of the jurisdiction of the PCAOB is required to obtain an audit conducted in accordance with PCAOB standards.

- The AICPA Code of Professional Conduct ET Section 1.310.001, *Compliance with Standards Rule*, designates three auditing standards setters in Appendix A, namely the PCAOB, the AICPA Auditing Standards Board, and the IASB with respect to international financial accounting and reporting principles. This code section clearly states that the ASB is the recognized standard setter relating to audits prepared and reported for entities not within the jurisdiction of the PCAOB. This code section, however, presumes that audits will be performed in accordance with one of those discrete standard setters, and doesn’t explicitly address what to do if an entity outside the jurisdiction of the PCAOB is required to be audited in accordance with PCAOB standards.



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- Furthermore, the AICPA Code of Conduct (ET Section 1.400.050) *Governmental Bodies, Commissions, or Other Regulatory Agencies*, states that other regulatory agencies, such as the SEC and the Federal Communications Commission, have established requirements, including audit standards, guides, rules and regulations that members are required to follow for entities subject to their jurisdiction. This code section does not explicitly require that audits be conducted in accordance with GAAS also.
- The AICPA Professional Standards, Part 1, *Applicability of AICPA Professional Standards to Audits of Financial Statements*, includes an opening paragraph indicating that “audits of financial statements of those entities whose audits are not within the PCAOB’s jurisdiction...are to be conducted in accordance with generally accepted auditing standards” This section also provides helpful guidance on the applicable standards of issuers and non-issuers. This guidance is difficult to find, though. Unfortunately, it is included in a foreword to the AICPA Professional Standards and would be easily missed by an accountant performing online research as the accountant would likely go directly to auditing standards, ethics, etc. We believe the guidance should be moved to the Code of Conduct.

In summary, the Committee agrees that proposed paragraph .44 makes it clear that an auditor who conducts an audit in accordance with the standards of the PCAOB, and the audit is not within the jurisdiction the PCAOB, should also comply with GAAS. We think it should be made clear elsewhere though. This could be accomplished effectively in an amendment to the AICPA Code of Professional Conduct. We also believe the peer review checklists should be revised, so that peer reviewers understand that any attest engagements not under the jurisdiction of the PCAOB should be included in the engagement listing subject to peer review, even if the engagement was performed under PCAOB auditing standards.

Issue 2

We made inquiries of AICPA staff about the intent of the proposal in order to understand the issues more clearly. It appears that the report currently in Section 700, amended to say the audit was also conducted in accordance with PCAOB standards, is not acceptable to the SEC. Therefore, this proposed amendment is intended to provide a different report illustration that should be acceptable to the SEC and that could also address any audits of a non-issuer when the auditor plans to refer to both the standards of the PCAOB and GAAS in the auditor’s report. However, it is not intended to amend reporting in accordance with any other standards. We are concerned, however, that the proposed report will also be deemed unacceptable to the SEC.

AU-Section 700.42 states “the auditor should not refer to having conducted an audit in accordance with another set of standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety.” International Standards on Auditing and Proposed PCAOB Release No. 2013-005 include those same requirements. If an auditor is required to conduct an audit in accordance with GAAS in its entirety and the PCAOB in its entirety, which would include the reporting standards, there is a conflict between AU-C Section 700 and AS 1 about the language to be used in a report.

- AU-Section 700.31 requires that the auditor’s report state that the audit was conducted in accordance with generally accepted auditing standards generally and identify the United States of America as the country of origin.
- AS 1 paragraph 3 says a reference to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America or standards established by the AICPA is inappropriate and requires the reference to the standards of the Public Company Accounting Oversight Board.
- AS 1 paragraph 5 says a reference to generally accepted auditing standards is no longer appropriate.



Given the requirement of the PCOAB to avoid references to “generally accepted,” we believe the proposed report will still be considered unacceptable to the PCAOB. One possible solution would be for the auditor to use separate audit reports for GAAS and PCOAB reporting, as is currently done for benefit plan audits which must use PCAOB reporting for their 11-K filing and GAAS reporting for the statements submitted to the Department of Labor.

The Committee is supportive of the Auditing Standard Board's consideration of clarifying the auditor's responsibilities when following more than one set of professional standards.

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



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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:

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| James J. Gerace, CPA | BDO USA, LLP |
| Michael Hartley, CPA | Crowe Horwath LLP |
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| Elizabeth J. Sloan, CPA | Grant Thornton LLP |
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Industry:

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Educators:

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Staff Representative:

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