



January 20, 2004

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

Re: Rulemaking Docket Matter No. 012 (PCAOB Release No. 2003-023) – Proposed Auditing Standard on Auditing Documentation and Proposed Amendment to Interim Auditing Standards

Dear Board Members:

The Audit and Assurance Services Committee (Committee) of the Illinois CPA Society is a voluntary group of CPAs from public practice, industry, education, and government. We take an active role in the standards setting process and have spent considerable time over the past few years responding to audit-related exposure drafts issued by the AICPA, the GAO, the SEC, and other professional organizations.

We welcome the opportunity to comment on the proposed auditing standards being considered by the Public Company Accounting Oversight Board (PCAOB or Board). 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.

### **Comments on Proposed Auditing Standard – Audit Documentation**

#### **General Commentary**

As with each proposed standard, we encourage the Board to critically evaluate the costs and benefits associated with some of the more significant proposed requirements. Our Committee members see value in each of the proposed requirements but also recognize that there are significant cost drivers in each of these requirements that will impact the economics of both the auditor and the company being audited.

Although the PCAOB draft document liberally abstracts both concepts and examples from Statement on Auditing Standards No. 96, *Audit Documentation*, (SAS No. 96), we noted that the concept of auditor professional judgment is not specifically addressed in this exposure draft. While we acknowledge certain provisions of a reviewability standard and rebuttable presumption mandate, we believe that auditor professional judgment is a very significant essential element of the audit documentation process, cannot be disassociated with the concepts addressed herein, and should be addressed in this proposed auditing standard. We support the concept resident in the first paragraph of SAS No. 96 stating “The quantity, type and content of audit documentation are matters of the auditor’s professional judgment.” (AU 339.01)

The proposed standard provides little guidance on documentation requirements associated with using the work of internal auditors, whose work is integral to many public company audits.

We suggest that Appendix A of SAS No. 96, or something similar, be incorporated into the new standard since it provides a useful summary of other documentation requirements.

### Introduction

Paragraph 1. We suggest that a footnote or other explanation be added to provide clarity around the reference to “and related professional standards.” This term is utilized throughout the standard but may be misinterpreted by auditors, especially in this transitional period.

### Objectives of Audit Documentation

Paragraph 3(f). This paragraph states that others who might review audit documentation are “representatives of a party to an acquisition”. Reviews of this nature often create confusion about the ownership and scope of working paper documentation. The proposed auditing standard should address ownership and confidentiality of audit documentation. As highlighted in SAS No. 96, audit documentation is the property of the auditor, and some states recognize this right of ownership in their statutes. (AU339.10)

The list of examples should include the fact that audit documentation may be required to be made available (and copies provided) to others by law or regulation.

### Content of Audit Documentation

Paragraph 5. The description of the audit documentation should include information to enable the “experienced auditor having no previous connection with the engagement” to understand the risks of material misstatement that the auditor has identified as part of the process of developing other procedures to be performed. The proposed standard is not clear on whether that information is part of the intended content. We believe that having such information will allow an “experienced auditor” to understand the auditor’s thought process and the reasons why certain procedures were selected rather than guessing about the auditor’s thought process.

Paragraph 5b. There needs to be further definition and clarification around the “date that work was completed” and “date of such review”. Traditionally in an audit, staff complete work which is then reviewed. There may be a period of time that occurs around this review process, which might require further effort around a particular area of documentation. Therefore, clarification on dating requirements is needed.

Paragraph 6. The proposed standard should include examples of the types of “persuasive other evidence” that an auditor could use on an after-the-fact basis to demonstrate that procedures were applied, evidence was obtained, or conclusions were supported. Further, many of our committee’s members believe that an oral explanation could constitute persuasive other evidence, especially if that information is obtained from several sources. For example, if an auditor inadvertently forgets to document something, but can support it with testimony of others, that auditor has provided persuasive evidence that the procedure was performed.

The first sentence of paragraph 6 reads as if it were establishing standards for specialists as well as auditors. We suggest rewording this sentence so that it clearly explains the auditor’s

responsibility for reviewing the specialist's documentation, obtaining copies of the documentation, or other documentation requirements.

Paragraph 7a. This paragraph states that appropriate audit documentation should address the manner in which the audit complies with auditing and related professional standards. A literal interpretation of this could easily be seen as requiring an auditor to document how the audit complied with each element of auditing and related professional practice standards. Therefore, compliance with this mandate could be accomplished through a comprehensive checklist of each provision of auditing standards with complimentary explanations of how the standards were complied with or why they were not relevant to the engagement. We do not view this exhaustive review of auditing standards as enhancing the support for the conclusion in the auditor's report.

Paragraph 7b. The proposed auditing standard states that *every* material financial statement assertion "should be" (meaning "presumptively mandatory") supported by audit documentation. This statement should also address (or clarify if that is the intention) the concept of the risk of material misstatement associated with the assertion as indicated in SAS 96 (AU339.06).

Paragraph 8. "Unique" is difficult to define. In theory, all engagements are different or unique as they are for different entities. To minimize the potential ambiguity, please provide examples of what could be documented in the central repository vs. the audit documentation of the pertinent engagement.

Paragraph 10. The engagement completion memorandum should also include *a brief summary of the resolutions* to all significant findings or issues, cross-referenced to the supporting audit documentation.

The meaning of the word *reviewer* in this context should be defined. Does it refer to the "experienced auditor having no previous contact with the engagement" (as mentioned in paragraph 5), or a partner or manager that is part of the engagement team? Depending on the meaning of *reviewer*, it may be unnecessary to have an engagement completion memorandum if issues are properly documented in the workpapers. This requirement may cause unnecessary effects on the efficiency of an audit by repeating such documentation in a completion memorandum.

Paragraph 11. The ability to retrieve the information on items tested should also be a consideration. If there is a reasonable expectation that the client document retention policies would provide for the ability to retrieve a critical document for the indicated period of time, we believe the standard should indicate that it is unnecessary to retain copies of every document tested. However, if the items tested cannot (or there is a reasonable possibility that it may not be able to) be regenerated at a later date, we believe that the audit documentation should include copies of the items tested.

Paragraph 13. This paragraph indicates that the seven year time period for retention begins on the date of the auditor's report. However, the SECPS, when providing guidance on the SEC document retention rules, suggested that this date is meant to begin on the date of the filing which includes such financial statements. The board should consider this alternative date prior to releasing the final standard.

Paragraph 16. The wording of this paragraph should be changed so that it is clear that these requirements only apply when the principal auditor elects not to make reference to the other auditor. Also, please more carefully define the meaning of "others" as used in the first sentence.

Paragraph 18. The effective date may not be operable as there may be engagements in scope that are already in process.

**Comments on Proposed Amendment to Interim Auditing Standards – Part of Audit Work Performed by Other Independent Auditors**

The proposed amendment to AU sec. 543.12 should include a specific reference to paragraph 16 of the proposed standard No. X since this explains the two alternatives for documenting the work performed by other auditors.

The members of the Audit and Assurance Services Committee of the Illinois CPA Society thank you for the opportunity to respond to this proposal.

Sincerely



William P. Graf, Chair  
Audit & Assurance Services Committee



Simon Petravick, Chair  
Comment Letter Subcommittee

ILLINOIS CPA SOCIETY  
AUDIT AND ASSURANCE SERVICES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2003 - 2004

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 auditing 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 auditing and attest standards. The Subcommittee ordinarily 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:**

James A. Dolinar, CPA	Crowe Chizek & Co. LLP
Kurt Gabouer, CPA	KPMG LLP
William P. Graf, CPA	Deloitte & Touche LLP
G. W. Graham, CPA	Grant Thornton LLP
James P. McClanahan, CPA	Altschuler, Melvoyn & Glasser LLP
Michael J. Pierce, CPA	American Express Tax & Business Services

**Medium:** (more than 40 employees)

Sharon J. Gregor, CPA	Selden, Fox and Associates, Ltd.
Gary W. Mills, CPA	Kupferberg, Goldberg, & Neimark, LLC
Stephen R. Panfil, CPA	Bansley & Kiener LLP

**Small:** (less than 40 employees)

Antonio Davila, Jr., CPA	Hill, Taylor LLC
Jeffrey M. Goltz, CPA	Rosen, Goltz & Associates
Loren B. Kramer, CPA	Kramer Consulting Services, Inc.
Andrea L. Krueger, CPA	Corbett, Duncan & Hubly P.C.
Ludella Lewis, CPA	Ludella Lewis & Company
JoAnne M. Malito, CPA	McGreal, Johnson and McGrane
Robert W. Owens, CPA	Wermer, Rogers, Doran & Ruzon
Richard E. Spiegel, CPA	Steinberg Advisors, Ltd.

**Government:**

Scott P. Bailey, CPA	Metropolitan Pier & Exposition Authority
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**Educators:**

Simon P. Petravick, CPA	Bradley University
Oliver R. Whittington, CPA	DePaul University

**Staff Representative:**

C. Patricia Mellican, CPA	Illinois CPA Society
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