



August 15, 2016

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

Re: PCAOB Rulemaking Docket No. 034

Dear Board Members:

The Illinois CPA Society (“ICPAS”) is a statewide membership organization, with over 23,000 professionals, dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the nation. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations, as well as affiliate member groups for students, educators, international professionals and related non-CPA finance professionals. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter.

The Audit and Assurance Services Committee of the Illinois CPA Society (the “Committee”) is pleased to comment on the PCAOB’s reproposal of the Proposed Auditing Standard on *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (Rulemaking Docket Matter No. 34) dated May 11, 2016 (the “Reproposal”). 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 stated purpose of the Reproposal is to increase the relevancy and usefulness of auditor reports (*i.e.*, to “address the information asymmetry between investors and auditors”). Consistent with our responses to the previous Releases dated September 30, 2011 and December 11, 2013, our Committee is in favor of adding clarity to the auditor’s report so that the responsibilities of the auditor, management, and the audit committee are better understood by the users of the financial statements. We appreciate the Board’s efforts on this undertaking and the opportunity to comment on the Reproposal. Our comment letter divides our response to the Reproposal into two sections: 1) *Critical Audit Matters*; and 2) *Additional Improvements to the Auditor’s Report*.

### **Critical Audit Matters**

#### **Determination of Critical Audit Matters**

We believe that the modifications to the definition of a critical audit matter provide additional clarity for auditors, and we agree that the incorporation of materiality judgements will aid in limiting over disclosure of matters not actionable by the financial statement users. However, our Committee is still not convinced that the additional information would necessarily be useful to investors. Investors would presumably be more interested in identification and understanding of business risks (e.g., environmental, legal, regulatory, etc.) facing the issuer. Such information should be provided by management, not auditors, and is, at least in part, already required to be disclosed pursuant to non-financial reporting regulations.



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## Communication of Critical Audit Matters

We strongly support not permitting disclosure of even an indication of the outcome of the auditor's procedures, or any specific audit procedures, related to a specific critical audit matter. Permitting an indication of the outcome of auditor procedures related to a specific matter undermines the auditor's opinion on the financial statements taken as a whole.

Although the description of critical audit matters is not intended to provide a list of all audit procedures performed, permitting disclosure of specific audit procedures could lead to more investor confusion and uncertainty, as it would be almost impossible for such disclosures to completely convey the range of relevant procedures performed and why they were selected. Such disclosures could also add to confusion over audit concepts such as sampling and materiality. Commentary and recommendations, such as to refrain from use of highly technical accounting and auditing terms, suggests the Board is aware of the risk that the disclosure requirements provided in this Reproposal may cause additional misunderstanding by financial statement users.

An auditor's unqualified opinion on the financial statements indicates that the auditor was sufficiently able to overcome the challenges associated with the disclosed critical audit matter(s) in order to provide the unqualified opinion and that the audited financial statements are fairly stated in accordance with the applicable financial reporting framework. As such, the reporting of critical audit matters may unduly raise investors' and other financial statement users' concerns over the quality of the audited financial statements. Communication requirements of the Reproposal may not only prompt a user, who generally is not a trained auditor, to suspect the veracity of the financial statement opinion, and potentially question the internal control opinion if one is provided (and/or of management's report on internal controls).

While the auditor's report will indicate that no critical audit matters alter the auditor's opinion on the financial statements, users may nonetheless consider the disclosed critical audit matters as somehow qualifying that financial statement opinion. Also, as indicated above, investors that mistakenly over rely on critical audit matter disclosures to highlight areas of concern, may not be properly informed or consider items that were *not* included as a critical audit matter, such as business risks. In an effort to potentially minimize these concerns, we suggest expanding the final sentence of the standard language preceding critical audit matters in the auditor's report as follows:

“The determination of critical audit matters is highly subjective. The critical audit matters communicated below may not represent all or even the most important elements of the accompanying financial statements and should not be considered as such. The critical audit matters communicated below were adequately addressed by our audit procedures. The disclosure of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we do not provide separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.”

Initially, due to the subjective nature of critical audit matters, different auditors, both within and amongst audit firms, will select different places along the 'challenging' continuum where a matter becomes a reportable critical audit matter. Companies then may - over time and likely with the aid of media or other reports that will evolve to track such things - start to consider which audit firms disclose more or fewer critical audit matters and how those disclosures are made when those companies choose which audit firm to engage. As a result, several years after implementation, it is more likely than not that industry standard disclosures will be utilized and audit reports within certain industries will once again become uniform and diminish the value-added objective to the users of the financial statements that the Reproposal intends.



## **Documentation of Critical Audit Matters**

We believe the repropoed documentation requirements are sufficiently clear.

## **Other Considerations for Critical Audit Matters**

We believe the Reproposal will have a material impact on the required additional effort, cost, and litigation risk, for both auditors and companies, to which we commented on in our December 11, 2013 response.

### **Additional Improvements to the Auditor's Report**

#### **Auditor Independence**

We believe the repropoed requirement is clear. However, consistent with our December 11, 2013 response, we do not believe the repropoed requirement will improve financial statement users' understanding of auditors' independence responsibilities, but rather lengthen the report with unnecessary reference to technical standards. In addition, we do not believe that including the statement in the auditor's report is necessary to "serve as a reminder to auditors" of their independence obligations, as independence is a basic tenet of the audit profession.<sup>1</sup>

#### **Addressee**

While we agree that the repropoed standard will promote consistency in the addressing of the auditor's report, consistent with our December 11, 2013 response, the Committee does not believe that adding required addressees is significant to the financial statements or will appreciably serve the purpose of better informing financial statement users. We do not believe inclusion of the repropoed requirement in the final standard is worth the effort by any involved party.

Should the proposed standard be finalized, it would be helpful to include practical examples (similar to, and expanded upon, as provided in footnote 74 of the Reproposal and/or in illustrative auditor reports) to ensure clear guidance and consistent implementation.

#### **Auditor Tenure**

As noted in our December 11, 2013 response, the Committee does not object to the underlying principle of disclosing auditor tenure, but we do not believe it should be included in the auditor's report. The Committee believes that the disclosure would be more appropriate in the Form AP, *Auditor Reporting of Certain Audit Participants*. We believe disclosure in Form AP would sufficiently address the issue of consistent disclosure placement, provide a place for (likely) lengthy explanation of tenure calculations, reduce over reliance on inferences regarding the correlation and misunderstanding of audit tenure disclosed and audit quality, and would also limit investor search costs.

As mentioned in the Reproposal discussion and Board member comments, the calculation of tenure will often be complex and easily misleading (as in the cited case of group investment companies). We do not foresee any auditor disclosing their uncertainty as to their tenure in the audit report, nor do we believe the option should be permitted, as it discredits the perceived competence of the auditor to a user that is not familiar with the calculation requirements and complexities.

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<sup>1</sup> Reproposal, §VI.C.2., p. 80.



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Should the proposed inclusion of auditor tenure in the auditor's report be finalized, we believe the most applicable location would be immediately following the reference to the applicable independence rules and regulations (end of the first paragraph in the Basis for Opinion section). In order to ensure consistency, we do not believe the auditor should have preferential options in terms of the disclosure's location. For the reasons mentioned and referenced above, we do not believe the disclosure merits its own section title.

### **Enhancements to Basic Elements and Standardized Form of the Auditor's Report**

The Committee agrees that clarification and amendment of the standard auditor's report is appropriate if the information enhances financial statement users' understanding of the roles and responsibilities of the auditor, management, and the audit committee in regards to the audited financial statements. With the exception of adding section titles and providing limited flexibility in the positioning of the sections within the auditor's report, we do not believe the enhancements to the basic elements of the auditor's reports will improve upon the relevancy, usefulness, or information asymmetry between financial statement users and the auditor.

We strongly object to the addition of the phrase "whether due to error or fraud" without the addition of corresponding language regarding management's responsibilities with respect to fraud. We suggest language to be required in the *Basis for Opinion* section of the auditor's report describing management's various responsibilities beyond just the financial statements. An example disclosure is as follows:

"Company's management is also responsible for designing and implementing controls to prevent and detect fraud, and to inform us about all known or suspected fraudulent activity that could have a material effect on the Company's financial statements."

As noted in our responses to the previous proposed standards, the Committee recognizes that the auditor's report, as repropoed, is approaching a potentially unreadable length and that a thorough description of everyone's roles and responsibilities with respect to the related financial statements and disclosures would further add to repetitive "boilerplate" verbiage across each auditor report for infinite periods, which is both inefficient and contrary to the principles of this Reproposal. Accordingly, we remind the Board of the supplemental alternative we provided as a part of our response to the Concept Release dated September 30, 2011, for the auditor's report to provide a cross reference to a more complete description of what a public company auditor's, management's, and audit committee's roles and responsibilities are, and a general discussion on the risk assessment, professional judgment, materiality, and sampling concepts that a compliant audit might provide. The referenced materials would be described in "plain English" and could be available to the general public on a free basis from a named website. We believe that the cost of creating this singularly referenced guidance statement would significantly outweigh repetitive and truncated statements of responsibility in each audit report and would potentially be perceived as adding more value from an independent governing body providing outreach as compared to an audit firm disclaiming responsibility.

### **Considerations Related to Effective Date**

As indicated in our previous response, our Committee would be in favor of limiting the requirement to disclose critical audit matters to reports on financial statements of accelerated and large accelerated filers. If the requirement is to be retained as repropoed, we suggest delaying the compliance date related to critical audit matters for smaller reporting companies.



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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,

**James R. Javorcic, CPA**

Chair, Audit and Assurance Services Committee

**Scott Cosentine**

Vice Chair, Audit and Assurance Services Committee



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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE

ORGANIZATION AND OPERATING PROCEDURES

2016 – 2017

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 LLP
Scott Cosentine, CPA	Ashland Partners & Company LLP
Heidi DeVette, CPA	Johnson Lambert LLP
Eileen M. Felson, CPA	PricewaterhouseCoopers LLP
Michael R. Hartley, CPA	Crowe Horwath LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Timothy Jipping, CPA	Plante & Moran PLLC
John Offenbacher, CPA	Ernst & Young LLP
Elizabeth J. Sloan, CPA	Grant Thornton LLP
Richard D. Spiegel, CPA	Wipfli LLP
Kevin V. Wydra, CPA	Crowe Horwath LLP

**Regional:**

Jennifer E. Deloy, CPA	Marcum LLP
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	



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**Educators:**

David H. Sinason, CPA

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**Staff Representative:**

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