



April 20, 2009

Office of the Secretary  
PCAOB  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 025

Dear Sir/Madam:

The Audit and Assurance Services Committee of the Illinois CPA Society (“Committee”) is pleased to comment on the Reproposed Auditing Standard, *Engagement Quality Review*.

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.

The Committee approves of the approach of the PCAOB to improve the quality of concurring reviews and established standards for its performance. Furthermore, the Committee acknowledges and appreciates the Board’s thoughtful consideration of the comment letters received on its initial proposal and the changes made to the proposed standard in response to those comments.

The following responses to the eleven specific questions contained in the proposed standard reflect the consensus of the committee members except where indicated:

1. The standard should not require an EQR for other kinds of engagements performed according to PCAOB standards.
2. The objective of the reproposed standard is appropriately formulated and articulates the purpose of an EQR.
3. The objective will contribute to a more thoughtful and effective EQR.
4. The proposed standard would require an in-house EQR reviewer be a partner or a person in an equivalent position, and expressly exclude a person at the manager level. While the proposed standard defines who is not in an “equivalent” position, it leaves it unclear as to who would be in such an

equivalent position. Would this be a “senior” manager? Firms should not be left to guess if someone besides a partner qualifies. This term, equivalent position, should be better defined through the use of examples.

A majority of our Committee (hereinafter referred to as “we”) also want to comment about the stated concern surrounding the use, as a reviewer, of a non-partner within the firm. The institutionalizing, in this standard, of the concept that influence and/or intimidation might overcome the due professional care and other ethical standards that are central to all audits is very troubling. To the extent such issues could impact the EQR process, there is no reason to believe that one partner could not also be influenced or intimidated by a more senior partner, as the Board recognizes in their discussion.

We believe that competence is the most important qualification beyond independence, integrity and objectivity. Technical competence can certainly exist in a non-partner within the firm. In fact, given the economics that exist in public accounting as well as other professions, technical competence is often not sufficient to allow a CPA to ascend to partnership in a CPA firm. It is likely that business growth skills will outweigh technical competence in decisions to elevate a person to partner. It can be argued that a technically competent manager will be less susceptible to influence and/or intimidation than a partner whose income may be more closely tied to the ability to satisfy a client’s needs.

However, this dynamic should not be vetted in an audit standard. It is demeaning to the profession in general, and to all CPAs individually. The focus should be on who is capable of performing the reviewer role, not on the possibility that someone may prove to be unable to perform the function. As we have all seen in recent months, from one financial fraud to the next, the appearance of integrity, propriety and honesty as a result of reputation and position has been no guarantee of those traits.

Finally, we believe that smaller firms will be unduly burdened with the requirement to use a partner as the reviewer. They will need to have two partners who are sufficiently competent to perform the review, and not have the flexibility to utilize a competent manager. While it is true that they can go outside the firm for retired partners, professors of auditing or other qualified accountants, this will add costs to the engagement that will either increase the cost of the EQR to their client, or reduce the profitability to the firm. In either case, their competitiveness with other larger firms is adversely impacted. As a result, it is possible that this requirement might reduce the number of firms capable of providing audit services in this market.

A minority of the Committee does believe that the Board’s proposal to only allow partners or persons in an equivalent position is appropriate.

5. The standard should allow qualified accountants who are not employed by an accounting firm to conduct a review.

6. The standard should prohibit the engagement partner from serving as the reviewer for at least two years following their last year as the engagement partner.
7. The descriptions of the scope and extent of EQR procedures contained in the repropoed standard are appropriate and will result in a high-quality EQR if properly performed.
8. The specifically required procedures are appropriately tailored to reflect the difference in scope between an audit and an interim review.
9. The specifically required procedures sufficiently focus the review on the areas of highest risk. No other procedures should be required.
10. The standard for the engagement quality reviewer's concurring approval of issuance is appropriately described in the repropoed standard. The first condition is appropriately tailored to reflect the difference in scope between an audit and an interim review.
11. The documentation requirements enumerated in paragraphs 19(a), 19(b) and 19(d) of the repropoed standard are appropriate. However, the requirement of paragraph 19(c) that significant discussion held by the engagement quality reviewer and others who assisted the reviewer be documented raises several issues.

The repropoed standard contains no definition or criteria as to what constitutes a "significant discussion". This creates the potential for varying interpretations across the profession. Firms which define "significant discussion" narrowly may discourage communication with the engagement quality reviewer due to a perceived documentation requirement. This, in turn, would likely reduce the effectiveness of the EQR.

Also, considering audit documentation requirements under AS3, it is difficult to imagine a circumstance in which an engagement quality reviewer or his assistants would need to rely upon matters voiced in a "significant discussion" to achieve their objective and still conclude that the engagement team obtained sufficient appropriate audit evidence. In other words, if an engagement quality reviewer finds it necessary to have a "significant discussion" with the engagement team in order to evaluate the significant judgments made by the engagement team and the conclusions reached in forming the overall conclusion on the engagement, how could an experienced auditor, having no previous connection with the engagement, evaluate these conclusions?

If the Board retains the requirement of paragraph 19(c), the term "significant discussions" should be clearly defined through the use of specific criteria and examples.

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,

A handwritten signature in black ink, reading "Jon Hoffmeister". The signature is written in a cursive style with a horizontal line extending from the end of the name.

Jon R. Hoffmeister, Chair  
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:**

Nicole G. Kiriakopoulos, CPA	Stericycle, Inc.
Janis D. Potter, CPA	MTL Insurance Co.

**Staff Representative:**

Paul E. Pierson, CPA	Illinois CPA Society
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