ILLINOIS CPA SOCIETY

December 13, 2011

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 Concept Release on Auditor Independence and Audit Firm Rotation (Docket Matter No. 37) dated August 16, 2011. 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.

First and foremost, we agree with the Board's goal to find reasonable modifications to the audit function to improve audit quality, independence, objectivity and professional skepticism. However, as it relates to the proposal to require audit firm rotation, our Committee does not believe that audit quality, independence, objectivity or professional skepticism have been compromised by audit firm retention. We believe that auditors have been performing their audits with the utmost integrity and allocating the resources required to ensure that audit quality, independence, objectivity and professional skepticism is maintained throughout all attest engagements. Of course, we understand that there are exceptions where such factors are compromised; however, we do not believe those situations are often due to lack of audit firm rotation. With the growing complexity of business transactions, audit firm rotation could actually reduce the ability of audit firms to identify material misstatements or detect fraud.

We have answered the questions posed by the Board while keeping in mind the monetary costs associated with auditing large companies, both domestic and foreign, which include the costs of transition and training of the new audit team, as well as the non-monetary costs related to audit quality. Some audit firms take up to three years to adequately train their staff on specific jobs in order to master certain industry or technical specialization before those resources can perform the audit within 'normal' parameters. Audit firms already expend disproportionate effort and costs in completing a first, and even second, time audits to counter the possible adverse impacts on audit quality caused by a transition and the resulting learning curve. Mandatory firm rotation would multiply the number of audit firm transitions, thereby making such rotations a very expensive proposition.

We considered the following potential alternatives to audit firm rotation:

- ✓ Board inspections of audit firms could be enhanced with a more specific focus on independence, objectivity and professional skepticism of the firm and of the individual engagement teams. As most of the audit firms that require Board inspections also require peer reviews, part of the solution could be an expansion of peer reviews to concentrate on the apparent weaknesses cited in the Concept Release.

- ✓ More rigorous standards could be required for audit firms to rotate the lead engagement partner, the engagement quality control review partner and the audit managers. For example, audit managers could be required to rotate as often as the engagement partner, the engagement quality control review partner could rotate more often (even annually) or the lead engagement partner could rotate sooner. However, excessive rotation of individuals on the audit could lead to many of the same adverse consequences and be subject to similar resource issues as described in the Concept Release and this response letter for audit firm rotation.

- ✓ The Board could perform its audit firm inspections on some in-process audits, rather than solely on completed audits thereby allowing the potential to address any deficiencies that might result from less than appropriate independence, objectivity and professional skepticism.

**General Questions:**

- *Should the Board focus on enhancing auditor independence, objectivity and professional skepticism? How significant are the problems in those areas relative to problems in other areas on which the Board might focus? Should the Board simply defer consideration of any proposals to enhance auditor independence, objectivity and professional skepticism?*

  Our Committee supports the Board in all explorations of options for maintaining auditor independence, objectivity and professional skepticism. As changes occur within the global markets and economy, the audit profession must continually examine itself to ensure it maintains the ability to provide the attest services required to meet the needs of investors. While Committee members may differ on the significance of the problem in relation to the other issues impacting the audit profession, we agree that this topic should not be deferred.

  At the same time, the Board should keep in mind that ongoing enhancements to auditing standards, quality control standards, peer review processes, professional education opportunities, and the Board's inspections themselves, should lead to continual improvements in audit quality, including auditor independence, objectivity and professional skepticism. We would expect that many of the audit weaknesses identified in these areas during recent Board inspections will be appropriately addressed by the audit firms with or without any new audit firm rotation requirements.

- *Would audit firm rotation enhance auditor independence, objectivity and professional skepticism?*

While there may be instances where audit firm rotation may result in improvements to auditor independence, objectivity and professional skepticism, we do not believe the enhancements would be significant or consistent among audit firms. In fact, mandatory audit firm rotation could potentially harm overall audit quality if audit firms are less willing or able to expend the necessary incremental time and effort to properly complete a first or second year audit due to increase in volume of first and second year audits that would result from such requirements.

It may be unrealistic to believe audit firm rotation would bring a fresh approach to a "stale" audit environment. What some may perceive as a stale audit approach may, in fact, be the result of cumulative enhancements over a period of years that have proven to be most effective.

- *What are the advantages and disadvantages of mandatory audit firm rotation? If there are potential disadvantages or unintended consequences, are there ways a rotation requirement could be structured to avoid or minimize them?*

  Many of the advantages and disadvantages were well articulated by the Board in its Concept Release. Some additional disadvantages not mentioned in the Concept Release include –

  a) Mandatory audit firm rotation on the largest company clients would create significant staffing problems for many audit firms. As audit firms rotate on and off major audit clients, staffing needs would fluctuate considerably. Entire offices created to support a major audit client might need to downsize with staff being relocated or switching to other audit firms. It often takes years for audit firms to build up the necessary resources to handle their specific client loads. The profession is not characterized with having temporary workforces or being able to quickly recruit specialized or numerous resources in a short time frame. This issue would be particularly troublesome for audit engagements of international companies were appropriate resources are required around the world. Additionally, where some audit firms are now considered among the country's best employers, the instability caused by mandatory audit firm rotation could significantly impact the ability of firms to hire and retain qualified professional staff.
  b) Auditor tools and techniques are often developed, sometimes over a number of years, for a specific client and may not be easily transferrable between audit firms. For example, audit firms can develop specialized tools to extract data from client databases for use in audit testing. These proprietary tools enhance audit quality and may not be easily transferrable between audit firms.
  c) Companies that might otherwise elect to change audit firms due to quality, specialization, breadth or other service issues, might instead postpone that appropriate switch pending the mandatory rotation in order to avoid excessive audit firm turnover.

The PCAOB should not overlook the trickle-down impact of the proposed standard. If the PCAOB adopts a mandatory auditor rotation policy across all regulated companies, auditor rotation could become legislated by state governments and become applicable to all audit and attestation services. We believe minimizing the impact of auditor rotation will require a flexible policy that provides a significant number of exceptions and exemptions.

In Illinois, the auditing of state agencies includes mandatory auditor rotation. The Illinois Office of the Auditor General can effectively rotate audit firms because it becomes a contractual party to the audit engagement and provides the ongoing oversight needed to ensure consistency and continuity. In addition, the Office has established a pre-qualification process under which audit firms are evaluated based on experience and capacity before being authorized to bid on attestation services.

The Board may have to increase its inspection program to more heavily focus on whether audit firms are continuing to expend the incremental first and second year audit efforts and costs to ensure that those audits are properly performed for the higher volume of such engagements due to mandatory rotation. This increase would potentially need to cover international auditors as they rotate on and off U.S registrants. It may be difficult to justify the incremental costs of such expansion.

- *Because there appears to be little or no relevant empirical data directly on mandatory rotation available, should the Board conduct a pilot program so that mandatory rotation of registered public accounting firms could be further studied before the Board determines whether to consider developing a more permanent requirement? How could such a program be structured?*

  While we do not believe mandatory rotation is appropriate, if the Board were to further consider such requirements, then we would agree that a pilot program is essential. The pilot program would need to cover a significant period of time to allow for the proper assessment of the impacts of increased rotations – both of the perceived positive impacts such as improved audit quality due to enhanced independence, objectivity and professional skepticism, and the negative impacts such as increased cost, increased risk during transition periods, and more limited choice of auditors. Companies participating in such a program would do so on a volunteer basis and should be reimbursed for whatever incremental costs they incur as a result of their participation. The audit firms used by the companies in the program would need to also volunteer to allow the Board fuller access to the impacted engagements and offices so that the Board can better assess the resulting impacts of the increased rotations. The Board might need to carefully select its volunteers to provide for a representative mix of industries, company size, audit firm locations and specializations, etc. in order to be able to observe how the many different types of impediments are handled – such as a highly specialized company in a location where audit firms are not currently well equipped to handle such specialties

  Before, or in addition to, such a pilot program, we suggest that the Board commission an in-depth study of historical audit firm rotations and company financial statement restatements and/or adverse Board inspection findings to assess whether there is any correlation between long auditor tenure and adverse audit findings. This same study might also measure the correlation between new auditor relationships and adverse audit findings resulting from the new firm's learning curve.

- *According to the 2003 GAO Report, large firms estimated that a rotation requirement would increase initial year audit costs by more than 20 percent. What effect would a rotation* *requirement have on audit costs? Are there other costs the Board should consider, such as the potential time and disruption impact on company financial reporting staff as a result of a change in auditors? Are there implementation steps that could be taken to mitigate costs? The Board is particularly interested in any relevant empirical data commenters can provide in this area.*

While the percentage cost increase would vary considerably, there can be no doubt that mandatory audit firm rotation will be a costly endeavor and we concur with the GAO report. Companies are already hesitant to change auditors due to the disruption in accounting and financial reporting operations, as well as the costs of acclimating the new audit team and providing the required historical documentation. The Board should definitely consider the cost of this disruption both in terms of dollars and the impact on company staff resources as it contemplates audit firm rotation requirements.

- *A 2003 report by the Conference Board Commission on Public Trust and Private Enterprise recommended that audit committees consider rotation when, among other factors, "the audit firm has been employed by the company for a substantial period of time— e.g., over 10 years." To what extent have audit committees considered implementing a policy of audit firm rotation? If audit committees have not considered implementing such a policy, why not? What have been the experiences of any audit committees that have implemented a policy of rotation?*

  While our Committee members are not audit committee members (who we believe are better suited to address this particular matter), we have seen only a fairly limited consideration by audit committees of rotating audit firms due solely to substantial tenure. Our belief is that audit committees, while potentially recognizing some incremental benefit of having a "fresh auditors' perspective", also recognize that the disruption to management, the learning curve of a new audit firm, the time-consuming effort to prepare an appropriate request for proposal and then seek an effective replacement auditor, the related incremental costs and other potential consequences of such a policy would be prohibitive.

- *Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity and professional skepticism? For example, should broader alternatives be considered that relate to a company's requirement to obtain an audit, such as joint audits or a requirement for the audit committee to solicit bids on the audit after a certain number of years with the same auditor? Could audit committee oversight of the engagement be otherwise enhanced in a way that meaningfully improves auditor independence?*

  The Board might consider avenues to better educate issuers on when and how to assess audit firm retention and on the most effective means to select a new audit firm. As described below, a possible alternative is to require issuers to put their audit services out to bid on a periodic basis. This requirement would increase the need for issuers to understand all of the factors they should be considering in such a process. All too often, for example, companies go out to bid and even select new audit firms solely on the basis of cost rather than on the basis of perceived auditor effectiveness and perceived adherence to independence, objectivity and professional skepticism standards.

The timing of audit firm selection could also be a crucial factor in mitigating the impact of rotation. Too often, the change occurs late in the fiscal year and the new firm can face extreme difficulty meeting pre-determined reporting deadlines. If the incoming firm was selected prior to the final audit of the outgoing firm, the new firm could observe the final audit, participate in certain audit meetings, and be in a better position to coordinate the transition. The incoming firm would also have a full year to assemble and train, if necessary, a strong audit team. This approach would require changes to current audit standards regarding the relationship between predecessor and successor auditors, as well as a clear definition as to the potential liability to the successor auditor.

Enhanced audit committee oversight of the audit process may be another viable and effective alternative to explore. This enhanced oversight would need to be well defined in order to appropriately consider whether audit firms tenure is causing declines in independence, objectivity and professional skepticism. The Board or SEC may need to consider how to better educate audit committee members on such matters.

- *Should the Board continue to seek to address its concerns about independence, objectivity and professional skepticism through its current inspection program? Is there some enhanced or improved form of inspection that could better address the Board's concerns? If mandatory rotation were in place, could an enhanced inspection, perhaps focused particularly on professional skepticism, serve as a substitute in cases in which it would be unusually costly, disruptive or otherwise impracticable to rotate auditors?*

  The Board's inspection program is an effective means to address many potential deficiencies in the audit process. We believe that enhanced focus on independence, objectivity and professional skepticism in the inspections would further reduce the perceived adverse consequences related to lengthening audit firm tenure. Specific inspections could be designed to review particular audit engagements from different periods over the audit firm relationship to determine if any notable performance declines are occurring. These focused inspections could be performed with a mandatory rotation policy rather than just reserved for situations where an exception to the mandatory policy exists.

**Specific Questions**

1. *If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?*

   Appropriate term lengths may need to vary based on the size and complexity of the company and the availability of alternative audit firms. Due to the level of disruption and cost, the larger global audits should not be rotated less than every 10 years. If audit firm rotation for smaller entities is deemed appropriate, and there are other audit firms readily available in that industry and geographic location, a rotation of 5 years may be achievable.

2. *Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based on?*

   If mandatory rotation becomes the policy, then differentiation is essential. We do not believe a single term length should be applied across all issuers. Company size, industry, and geography should be critical factors. The Board may need to undertake a study to determine the availability of viable audit firm alternatives by industry and geographic location, at least for the short-term until more audit firms develop the necessary skills and reach to accommodate a larger mix of clients.

3. *Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?*

   We believe that even in the initial years of a new audit relationship, the auditor expends the necessary incremental effort and cost to offset the potential adverse impacts of a transitional learning curve – and as such, does an effective audit. However, audit effectiveness would typically improve over time as audit firms become more familiar with client operations and control systems, and develop more effective audit approaches. The learning curve does vary by client type, but would generally last no more than two years. Even within a particular industry, individual companies can have vastly different operating systems, business processes, and control structures. The larger issue in regards to mandatory rotation is whether the audit firms or the issuers are willing and able to incur the incremental costs (monetary and otherwise) of the increased load of initial audits.

4. *Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term?*

   While audit firms may be more careful to document the full extent of their audit activities in its final year knowing that successor auditors will likely review the resulting work papers, we do not believe that the actual audit in the final years would generally be less effective. However, audit firms may elect to reassign their most competent staff to other new or ongoing engagements where their talents can be better utilized. We do not believe the length of the rotation cycle would have an impact on first year or last year auditor effectiveness. The Board might consider the proximity of an upcoming mandatory audit firm rotation in its selection process for its inspections.

5. *How much time should be required before a rotated firm could return to an engagement?*

   While a two or three year time frame might generally achieve the objective of providing a "fresh perspective", the new audit firm is only then just achieving its maximum effectiveness and efficiency. Additionally, the risk of companies bringing in 'temporary' audit firms with the sole intention of returning to their preferred firm as soon as possible increases as the "time off" period decreases. For audit firm rotation to be most effective, the new audit firm would need to be viewed as a long-term rather than a short-term solution. Therefore, we would recommend that 5-10 years be required before an audit firm could return to an audit engagement – or the equivalent of one rotation cycle.

6. *Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries?*

   If an audit firm rotation policy is forthcoming, our Committee was split on how it should be implemented. Some would prefer a rotation policy that could be applied to all issuers to enhance competition and address the concerns raised by the Board. Other members would advocate mandatory rotation for a defined group of the largest issuers in order to avoid the more severe impacts smaller issuers would experience on management team disruption and cost. Note again that management team disruption and cost would include the often substantial efforts in preparing an appropriate request for proposal and then seeking the new firm.

7. *To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?*

   Mandatory audit firm rotation would have a significant impact on the ability of some companies to select qualified auditors. There are many industries and geographic locations where there are only a very limited number of firms that currently possess the experience and depth to perform a high-quality audit without a significant level of additional investment and training. In the more remote areas of the country, mandatory audit firm rotation could significantly increase the travel costs associated with an audit engagement. Mandatory rotation could also significantly impact the ability of a company to obtain non-audit services from qualified audit firms that would tend to not accept such non-audit work so as to avoid potential independence issues associated with later becoming the company's audit firm.

   With regard to firms leaving the audit market, we believe the opposite could also occur. With a limited pool of audit firms, it may become profitable for new firms to enter the market and become competitive in those industries that currently have few firms able to perform the audits.

By increasing competition through mandatory audit firm rotation, some firms may elect to enhance their audit capabilities and begin bidding on audit opportunities that would have been ignored in the past.

8. *If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice?*

   One step that might be taken is to require the new firm be selected at least a year prior to performing its initial audit services. Too often, the change occurs late in the fiscal year and all parties must scramble to terminate non-audit services and assemble a qualified audit team. If the new firm was selected earlier, it could make the proper arrangements for a smoother transition

   In regards to auditor choices being limited due to lack of audit firm experience or proximity, natural competitive tendencies might solve that issue in due course, but that resolution would take years to foster.

9. *If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?*

   The response would depend on the size and complexity of the entity being audited. For the larger company audits, assembling a new audit team will be a challenge. While the larger audit firms may generally possess the capacity to address the needs of new clients, this capacity may be located in other offices across the firm. For the smaller audit firms interested in expanding the audit segment of their business, mandatory audit firm rotation may provide an incentive to enhancing the firm's capacity to provide audit services within their chosen areas of industry expertise. However, it would also raise the risk of significant periodic changes in staffing levels which could deter the smaller audit firms from making the investment necessary to enter the public audit marketplace.

10. *Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?*

    Yes, the challenges of mandatory audit firm rotation would definitely increase depending on the global reach and complexity of the company being audited. Developing capacity on a global basis will be far more challenging than developing capacity locally. However, if the mandatory audit firm rotation policy would only apply to the principal auditor, perhaps the other audit firms that participate in the consolidated audit would not be transitioned. In such situations, the perceived adverse consequences of lengthening audit firm tenure would not necessarily be avoided at the secondary auditor level. Additionally, as many of the large audit firms generally coordinate better with their own network of foreign member firms, a switch of the principal auditor and not the secondary auditors would likely increase the cost and potentially decrease overall effectiveness.

11. *Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high-quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?*

Yes, frequent audit firm changes will always be disruptive to some extent and may, in fact, interfere with their ability to perform high quality audits. As noted above, the initial years of an audit often require more resources and effort and such incremental time may pull needed resources from other improvement efforts. Additionally, with mandatory firm rotation, a substantial increase would occur in most firms' marketing activities. As those marketing activities are largely performed by managers and partners, the primary members of engagement teams may have less time to devote to execution of the audit at the same time those resources are needed on more and more new audits for them to be effective.

For the smaller audit firms, rotating audit clients within a specific industry and geographic location should be less disruptive. However, this assumes that the firm will gain a new audit client for each client lost due to mandatory rotation. The reality is that some firms may see significant reductions in the need for audit staff and may lack the flexibility needed to transition staff between audit and non-audit services.

12. *Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?*

Subject to our observations in the prior response, we do not believe that audit firms would devote fewer resources to improving the quality of their audits. However, audit firms might have little incentive to assign their most qualified resources to an audit relationship in its final years and instead move those resources to newer relationships.

It is difficult to predict the impact of mandatory rotation on the level of audit versus non-audit services. On the one hand, some firms may tend to offer less audit services to avoid the disruptions caused by excessive client turnover and the loss of long-term audit relationships, while others may determine that they want to increase audit services in order to have an opportunity to seize a portion of the transitioning companies. Yet, other firms may determine to reduce non-audit services that might interfere with their ability to become the auditors of a transitioning company. Accordingly, auditor choice – especially for well qualified audit forms - for both audit and non-audit services might decline as a result of mandatory rotation.
Additionally, the continual bidding on new engagements may drive the pricing of audits down (if the audit firms continue their custom of absorbing first-time through fees), which, in turn, may result in audit firms scaling back their audit services and further limiting auditor choice.

13. *Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?*

    Mandatory rotation may result in enhanced competition for non-audit services as firms may find non-audit services to be more profitable and not require mandatory rotation. The potential increase in non-audit services may decrease the pool of alternatives as certain firms may forgo the audit to keep the non-audit services while other firms may have independence conflicts that do not allow them to pursue the audit.

14. *Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?*

    We do not believe 'opinion shopping' will be a critical factor. The litigation and inspection risk of issuing unqualified audit opinions when clients are not following appropriate accounting principles is too high to believe that audit firms will agree to be engaged for "opinion shopping" reasons. Of course, different audit firms can have different views on what appropriate accounting principles would dictate, but we do not believe those differences would be wide-spread enough to expect that companies would increase their efforts to seek auditors based on such differences. Companies receiving unqualified opinions from their current audit firm may be hesitant to change firms. However, in many cases, these companies would expect the same financial statement opinion to be received regardless of the audit firm

15. *What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?*

    Mandatory rotation could definitely increase competition among audit firms. With the Board's inspections (and peer reviews) and the potential litigation risk associated with poorly performed audits audit quality should not be impacted. However, issuers' objective process for audit firm evaluation and selection will become critical. Companies should not be allowed to select audit firms based solely on cost. When cost becomes the driving factor in selecting audit firms, audit quality can suffer as audit firms may tend to reduce their efforts to try to remain profitable even at those lower prices.

16. *Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?*

    Yes, risks associated with mandatory audit firm rotation should be continually reviewed with appropriate standards and policies adopted to mitigate these risks. While we believe the Board inspections (and peer reviews) are already comprehensive and effective, the focus of those inspections should be subjected to continual review and improvement. Enhancing quality control systems at the audit firms will be another option. Audit firms dealing with the constant turnover of audit clients each year need to modify their quality control systems to address any risks or changes that appear due to mandatory audit firm rotation.

17. *If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs?*

We do not agree that audits are not performed at an acceptable level of quality until several years have passed. We expect that audit firms already expend the incremental effort and cost, including higher partner and manager time, on initial audits to offset the potential adverse impacts of a transition. However, the introduction of mandatory rotations will challenge many firms' ability to continue providing the necessary incremental efforts. Accordingly, but only if mandatory rotation becomes required, , the Board may need to establish specific additional steps that partners, managers and firms must take during the transition period to ensure that an acceptable level of audit quality is achieved during the early years of an audit relationshipt.

Client acceptance requirements could also be strengthened so that audit firms consider the cost of achieving an acceptable quality level as part of the decision making process or, alternatively, companies become expected to pay for such incremental costs in the early years of a new relationship.

18. *If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?*

There would be a need to enhance communication requirements throughout the auditor transition period. With mandatory audit firm rotation, the incoming and outgoing firms will need to vastly expand the level of communication and cooperation. One option to be studied would be a written report from the outgoing audit firm. For a written report to be effective in improving audit firm transitions, standards will be required outlining content requirements, content restrictions and liability concerns. These enhanced communications might include summaries of noted audit risks, use of proprietary audit tools and their purpose, observed management biases and audit committee communications and meeting summaries.

19. *Are there other audit procedures that should be required to mitigate any risks posed by rotation?*

The outgoing firm would also need to ensure that its audit methodologies, tools and techniques are fully documented during the final year of the engagement.

Standards may need to include requirements for the incoming firm to document its approach for attaining the skill level required to undertake the audit engagement. If audit firm rotation results in additional training needs, a plan to obtain this training prior to the first engagement should be fully documented.

20. *If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?*

    We do not believe that the introduction of a mandatory rotation requirement would necessitate a cause restriction.

21. *What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?*

    One issue the Board may need to address would be the potential large scale migration of audit staff between firms as audit engagements are rotated. Some of the benefits of a mandatory rotation policy would be lost if the entire audit team simply shifts from Firm A to Firm B.

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,

Kevin V. Wydra, CPA
Chair, Audit and Assurance Services Committee

James J. Gerace, CPA
Vice Chair, Audit and Assurance Services Committee

ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2011 – 2012

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 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:

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|---|---|
| **Public Accounting Firms:** | |
| **Large:** (national & regional) | |
| James J. Gerace, CPA | BDO USA, LLP |
| William P. Graf, CPA | Deloitte & Touche LLP |
| Howard L. Gold, CPA | LarsonAllen LLP |
| Jeremy L. Hadley, CPA | Pricewaterhouse Coopers |
| Jon R. Hoffmeister, CPA | Clifton Gunderson LLP |
| James R. Javorcic, CPA | Mayer Hoffman McCann P.C. |
| Michael J. Pierce, CPA | McGladrey & Pullen LLP |
| Elizabeth J. Sloan, CPA | Grant Thornton LLP |
| Kevin V. Wydra, CPA | Crowe Horwath LLP |
| **Medium:** (more than 40 professionals) | |
| Jennifer E. Deloy, CPA | Frost, Ruttenberg & Rothblatt, P.C. |
| Sharon J. Gregor, CPA | Selden Fox, Ltd. |
| Timothy M. Hughes, CPA | Wolf & Company LLP |
| Andrea L. Krueger, CPA | Corbett, Duncan & Hubly, P.C. |
| Matthew G. Mitzen, CPA | Blackman Kallick LLP |
| Stephen R. Panfil, CPA | Bansley & Kiener LLP |
| Richard D. Spiegel, CPA | Steinberg Advisors, Ltd. |
| **Small:** (less than 40 professionals) | |
| Scott P. Bailey, CPA | Bronner Group LLC |
| Julian G. Coleman, Jr., CPA | Horwich Coleman Levin LLC |
| Patrick J. Dolan, CPA | CJBS LLC |
| Robert D. Fulton, CPA | Mulcahy, Pauritsch, Salvador & Co Ltd |
| Loren B. Kramer, CPA | Kramer Consulting Services, Inc. |
| Ludella Lewis | Ludella Lewis & Company |
| Carmen F. Mugnolo, CPA | Philip + Rae Associates, CPA's |
| Jodi Seelye, CPA | Jodi Seelye, CPA |
| **Staff Representative:** | |
| Ryan S. Murnick, CPA | Illinois CPA Society |