May 26, 1999



Director of Research and Technical Activities Financial Accounting Standards Board 401 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

File Reference No. 194-B

Letter of Comment No: 27 A
File Reference: 1082-194R

Date Received: 5/28/99

Dear Sir:

The Audit and Assurance Services Committee of the Illinois CPA Society (the Committee) is pleased to comment on the proposed Statement of Financial Accounting Standards - Consolidated Financial Statements: Purpose and Policy. The organization and operating procedures of the Committee are reflected in the Appendix A to this letter. The following comments and considerations represent the collective views of the members of the Committee rather than any of the members of the Committee and of the organizations with which they are associated. Please note the following comments apply to the auditability issues rather than the accounting issues.

In general, the Committee supports the proposed Statement. The Committee believes that the expanded control definition of "ability to increase the benefits and limit losses" will prevent companies from preparing consolidated financial statements one year and then by choice, not consolidating the next year.

Specific points:

Paragraph 18c. indicates control is present assuming the factors listed. In situations where there are agreements in place to acknowledge or dispute these factors, an easy assessment can be made as to whether control exists or not. We are concerned in situations where agreements are vague or not defined at all, whether a clear distinction can be made as to whether control exists or not.

We also believe it is difficult to evaluate control when agreements are silent and the other entity (potential subsidiary) has related parties on its board. Do you always consider that a company can influence related parties? What definition of related parties should be used? The definition in FAS No. 57 is quite broad. How does an auditor know how much influence Company A can have over Company B (potential subsidiary) when B has one or more related parties on its board?

Further, nonpublic and nonprofit entities are not always as sophisticated as public companies in drafting agreements and articles of incorporation. Nonprofits also enter into many different types of organizations. For example, associations, library's, and other ad hoc entities that are established for a specific purpose.

2 2 2 SOUTH R!VER-SIDE PLAZA SUITE 1600 CHICAGO, IL. 60606 - 6098 FAX: 312-893-9954 TEL: 312-893-0407 or 800-993-0407 (Illinois only) For these reasons we believe there may be too much subjectivity in the proposed standard for determining control unless additional guidance is planned. As such we pose the following questions:

- Will the Auditing Standards Board be providing auditing guidance? Have these issues been added to the Auditing Standards Board agenda?
- Will the FASB be developing examples to assist in identifying substance over form?
- Will additional guidance and explicit examples be forthcoming for nonprofit entities? The Committee believes further clarification is needed as to what constitutes control in a nonprofit situation.
- Can the impact of related parties and their effect on control be added to the proposed standard?

Thank you for considering the above issues.

Sincerely,

James A. Dolinar, CPA

Chair Audit and Assurance Services Committee

APPENDIX A

ILLINOIS CPA SOCIETY AUDIT AND ASSSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 1998 - 1999

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of 20 technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 15 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 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 which 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.