ILLINOIS CPA SOCIETY

April 11, 2024

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

Re: PCAOB Rulemaking Docket No. 054

Dear Board Members:

The Audit and Assurance Services Committee of the Illinois CPA Society ("Committee" or "we") appreciates the opportunity to respond to PCAOB Rulemaking Docket Matter No. 054, *Proposals Regarding False or Misleading Statements Concerning PCAOB Registration and Oversight and Constructive Requests to Withdraw from Registration,* dated February 27, 2024. The organization and operating procedures of the Committee are reflected in Appendix A attached to this letter. These comments and recommendations represent the position of the Audit & Assurance Services Committee of the Illinois CPA Society rather than any members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

The Committee represents a diverse group of auditors with respect to firm demographic and role, including members of academia and the consulting profession. As such, we feel that we bring a unique perspective to respond to this proposal and appreciate your consideration of our thoughts herein.

GENERAL COMMENTS:

We agree it is important public accounting firms do not mischaracterize the nature of their PCAOB registration and its meaning either as a marketing tool or to imply PCAOB oversight provides umbrella coverage of all firm services. To that end, a rule-based mechanism to pursue actions against such firms seems reasonable.

However, we question whether the proposed rule will make a significant impact on information gathering for potential auditees or provide sufficient clarity to the stakeholder groups cited in the Executive Summary ("investors, audit clients, potential audit clients, issuers' audit committees, and members of the broader public") regarding the role the PCAOB plays in public accounting firm oversight and the scope of that role.

Though components of assisting and informing stakeholder groups, rulemaking and enforcement are not substitutes for stakeholder knowledge and familiarity with the public accounting firm market or related PCAOB oversight activities. This understanding can only be achieved through stakeholder education. Therefore, while we agree with the need for rules to pursue firms that mischaracterize their PCAOB registrations, these may not go so far as to resolve stakeholder knowledge gaps or public expectation or perception issues. Consequently, the rule may fall short of truly addressing the needs discussed in the proposal and potentially result in undue costs and repercussions for accounting firms, some of which we have outlined in our responses below.

PCAOB QUESTIONS AND COMMITTEE RESPONSES:

Question 1: Is the proposed general prohibition on false or misleading statements concerning a firm's PCAOB registration status, including the extent of the PCAOB's oversight of a firm's services, clear and appropriately tailored? Why or why not?

Response: The proposal's Executive Summary alludes to an overall lack of clarity and understanding by the stakeholder groups referenced above regarding the nature and scope of PCAOB oversight activities. Therefore, a general prohibition rule that includes the phrase *"omit stating a material fact necessary to make the statements made not misleading, concerning the firm's PCAOB's oversight of the firm's services"* may be overly subjective.

This is particularly the case as the proposal goes on to discuss that the determination of materiality in this context *"would be an objective inquiry, depending upon whether a reasonable client, potential client, or member of the public would view the false or misleading facts as having significantly altered the total mix of information made available concerning the firm's PCAOB registration status, including the extent of the PCAOB's oversight of the firm's services."*

If these groups already possess foundational misunderstandings regarding the scope of PCAOB oversight or how to interpret information about registered firms already included on the PCAOB website, including these groups in the assessment of whether a material fact was omitted sets a high bar. This raises the question as to the extent of a public accounting firm's responsibility to provide broad-based education on the PCAOB's overall role in addition to how that role specifically relates to services the firm provides.

Further, footnote twenty-five of the proposal indicates that "the PCAOB would not be required to prove that a misstatement or omission was made with the intent to deceive, manipulate or defraud." Considering one of the goals of the proposed rule would be to identify and prevent misrepresentation, this seems reasonable. However, intent is an important concept particularly as individualized marketing statements, including in person or over the phone communications with potential clients, would fall within the proposed rule's scope. Without considering intent in these interactions, simple miscommunications could be unfairly characterized when it is in fact the foundational misunderstandings of the users that may be their cause. Also, the footnote outlines that the PCAOB need not prove reliance on the misstatement or omission, a loss, and (or) a causal link to a loss. When you consider that the proposed standard also does not account for intent, it seems that any claim made could be justified, and we question whether that was the ultimate intent of the proposal. Intent and actual adverse impact (loss or causal link to loss) are two very important concepts that we feel should be further addressed prior to finalizing the proposed standard.

Simply stated, we do not believe auditors should misrepresent their status as a PCAOB-registered firm or their current monitoring, but we also do not feel that a users' misunderstanding should be held against the firm and cause enforcement action. As violations could be considered grounds for inspection findings or enforcement actions, the subjectivity issue mixed with the omission concept could result in confusion.

Question 26: We request comment generally on the analysis provided above regarding the need for the proposals. Should we consider any additional arguments, academic studies, or data related to the need for rulemaking?

Response: We agree there are firms that, intentionally or not, distort the meaning of their PCAOB registrations. However, we question the approach used to assess the extent of the problem. The proposal describes that the review PCAOB staff performed over 10 percent of registered firms' websites for such misrepresentations may be skewed towards firms with past regulatory oversight issues. While a targeted sample may have its place in defining the scope of this problem, it does not provide a basis for concluding about the entire population of PCAOB-registered firms. Further, we noted that the potentially biased sample itself exhibited only a handful of examples that implied PCAOB endorsement of a firm's work. Therefore, we suggest a more thorough assessment with different selection methodology that would provide a representative picture of the incidence rate of misrepresentations (covering both firm websites and other publicly available marketing material) amongst registered firms as a whole and the extent to which this has had an adverse impact on users.

The existence of at least a few bad actors demonstrates the need for rules and processes to address misrepresentations of PCAOB registration and deter future infractions. However, it is unclear whether the broadly-based rule proposed in part (a) would effectively deter these firms from future misrepresentation in all arenas.

The Executive Summary discusses the need for better stakeholder understanding regarding the limits of PCAOB oversight regarding non-PCAOB work and specifically references "potential clients" and "the broader public" as stakeholders. We question whether expanding the description of firm labels would truly improve stakeholder understanding of the PCAOB's role. The publicly available PCAOB Registered Firms search already classifies registered firms based on performance of issuer or broker-dealer audits, both types, or neither type. Therefore, potential auditees (as well as the public) can already easily determine this information. Simply providing clear descriptions of the link between each classification and the nature of PCAOB oversight of these firms may accomplish the same objective of informing stakeholders as the labels described in the proposed rule.

Question 27: Do commenters concur with our evaluation of the costs and benefits? Are there additional benefits or costs that should be considered? If so, what are they?

Response: We do not believe the costs to initially review and continue to monitor marketing materials to adhere to the proposed rule would be major. However, larger concerns may exist related to the strength of competition in the audit marketplace.

With regard to specific identification of PCAOB-related services, detailed labels could create barriers to entry by limiting firms' appeal to potential PCAOB audit clients. This information represents only one facet of the thorough due diligence necessary for auditees to select an audit firm, and a narrowed focused on this information may be unwarranted. This circumstance could hamper firms' ability to enter the market, resulting in the same pool of firms attaining these engagements. Though we do not believe this should supersede the need to make truthful statements to the public and to provide stakeholders with valuable information, information without good context is not useful. Further, concentrations of work among a small subset of firms limits stakeholder choice and presents different challenges.

Conclusion:

We support a proposed rule that provides the PCAOB with a means to pursue firms making false or misleading statements regarding PCAOB registration and the scope of PCAOB oversight. Providing stakeholders appropriate and relevant information is essential. However, in and of itself, the proposed rule will not resolve the challenges associated with stakeholder misunderstandings about the PCAOB and its oversight role.

Further, as with any rule proposal, enforcement and unintended consequences are a concern. Consequently, there should be careful consideration of the implications of inspection findings or enforcement actions, particularly in cases related to stakeholder misunderstanding.

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The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Amber Sarb, CPA
Chair, Audit and Assurance Services Committee

Jon Roberts, CPA
Vice Chair, Audit and Assurance Services Committee

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APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2024 – 2025

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. 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:	
Scott Cosentine, CPA	Ashland Partners & Company LLP
Timothy Delany, CPA	RSM US LLP
Erik De Vries, CPA	CohnReznick LLP
Kara Fahrenbach, CPA	Plante Moran, PLLC
Emily Hoaglund, CPA	KPMG LLP
James R. Javorcic, CPA	Mayer Hoffman McCann P.C.
Kelly Kaes, CPA	Grant Thornton LLP
Michael Potoczak, CPA	Marcum LLP
Jon Roberts, CPA	BDO USA, LLP
Amber Sarb, CPA	RSM US LLP
Regional:	
Elda Arriola, CPA	Roth & Co., LLP
Andy Kamphius, CPA	Vrakas CPAs + Advisors
Genevra D. Knight, CPA	Porte Brown LLC
Matthew Osiol, CPA	Topel Forman LLC
Michael Ploskonka, CPA	Selden Fox, Ltd.
Local:	
Kelly Buchheit, CPA	ORBA
Lorena C. Engelman, CPA	CJBS LLC
Mary Laidman, CPA	DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Carmen F. Mugnolo, CPA	Mugnolo & Associates, Ltd.
Jodi Seelye, CPA	PKF Mueller, LLP
Industry/Consulting:	
Sean Kruskol, CPA	Cornerstone Research
Educators:	
Meghann Cefaratti, PhD	Northern Illinois University
Staff Representative:	
Heather Lindquist, CPA	Illinois CPA Society