



June 7, 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. 055

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. 055, *Firm Reporting*, dated April 9, 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:**

The Committee appreciates the Board’s objective to increase transparency to investors by facilitating the disclosure of more complete, standardized, and timely information by registered public accounting firms. However, we have concerns with certain aspects of the proposal which are discussed below. While we responded to select questions found in the proposal, some of these concerns may address other requests for comment as well.

It is unclear from the proposal how the additional and enhanced firm reporting requirements would impact audit quality. The proposal acknowledges that such disclosures “*would not necessarily have a direct relationship to audit quality.*” Although we admire the Board’s transparency initiatives, we agree with the following statement from Board Member Christina Ho in her dissent on the proposal: “*this proposal contains a significant expansion of reporting requirements, except that here there are no clear and direct linkages between the proposed new reporting requirements and audit quality.*” In fact, the Committee questions whether the enhanced reporting requirements would further detract from audit quality as they would divert firm resources from quality engagement execution to compliance reporting. These additional resources would likely be drawn from the audit profession, which is already facing talent and retention issues.

While the proposed firm reporting is intended to provide investors with comparable and consistent data from registered public accounting firms, it is uncertain whether investors will find the enhanced reporting meaningful or relevant. This is particularly concerning when no context is provided for the firm data that will be reported, which would further reduce comparability. The Board did not quantitatively estimate the cost to registered firms (individually or collectively) to comply with the proposal, and there was also no quantitative estimate of any benefit to stakeholders. As such, the additional costs to registered firms to enhance reporting in these areas may be passed on to investors



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with no commensurate benefits. The Committee encourages the Board to perform additional outreach to investors and other stakeholders to further glean the desire for this type of data gathering, as well as further economic analysis to quantify the related costs and benefits.

Given the proposal's acknowledgement that additional disclosure may not directly relate to audit quality the Committee questions whether the enhanced reporting goes beyond the Board's authority. In her April 9<sup>th</sup> statement in connection with the related Docket Matter No. 041, *Firm and Engagement Metrics*, Christina Ho points out "*Congress gave the PCAOB broad authority to require registered firms to provide additional information beyond what is statutorily required. However, this authority is not open-ended; rather, Congress authorized the Board to require the submission of such additional information only when the Board determines that it is necessary or appropriate in the public interest or for the protection of investors.*" Without a clear relationship between additional disclosure and audit quality, the Committee questions whether the proposal satisfies this idea.

The Committee also questions how the Board will use the information. Regarding the proposed requirement to report GAAP financial statements, the Board would not have the authority or ability to take action for any financial statements provided by the registered firms, even if a solvency issue was identified. The proposed enhanced fee reporting also represents a possible overreach of the Board's authority. The Committee addressed this with a specific response to question 8 below.

In addition to concerns about the proposal expanding the Board's authority, the Committee has concerns regarding the confidential nature of the proposed reporting requirements. If the Board moves forward with the proposal, the Committee believes that the information provided by the registered public accounting firms should remain confidential, similar to information submitted in the inspection process. Additionally, the call within the proposal for public disclosure is inconsistent with recently adopted QC 1000 where information would be confidentially submitted.

The Committee suggests the Board specify the definition of a "smaller firm" as discussed in the proposal. The incremental costs to comply with the additional proposed reporting requirements would disproportionately impact smaller firms who may not have the necessary resources. It is uncertain if the enhanced reporting requirements will force smaller firms out of the industry and prevent new competitors from entering the industry, which may lead to reduced competition in the market.

#### **PCAOB QUESTIONS AND COMMITTEE RESPONSES:**

**Question 1: Will the proposed areas for enhanced reporting provide investors, audit committees, and other stakeholders with relevant information? Should the Board consider enhanced reporting in other areas?**

Response: As noted above in our general comments, the Committee is concerned that the proposed areas for enhanced reporting will provide information from registered firms that is incomparable and without necessary context. For example, comparing financial statements or network arrangements for various firms may not provide a clear picture to investors as to which firms may perform higher quality audits. As there is no quantifiable benefit or direct link to audit quality, it is uncertain what the benefits would be for investors, audit committees, and other stakeholders.

The Committee does not have any further areas of enhanced reporting for the Board to consider.

**Question 5: Is our proposal to provide for confidential reporting of certain information, namely financial statements from the largest firms, special reporting of material events, and cybersecurity incident reporting, appropriate? Why or why not? Should we require any of the**



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**confidential information to be reported publicly? If so, what information? Is the proposed approach to conflict of laws appropriate?**

Response: The Committee has concerns about confidentiality over the reporting of proprietary information. We agree with financial statements, special reporting, and cybersecurity incident reporting remaining confidential due to the sensitive nature of these areas of firm reporting. We suggest the Board provide more detail on confidentiality protections over these enhanced areas of reporting. The Committee has separate concerns with the proposed enhanced reporting on financial statements and cybersecurity which are addressed in other responses within this letter.

**Question 8: Are the proposed fee reporting requirements clear and appropriate? Will they elicit useful information for investors, audit committees, and other stakeholders? Is there other revenue or expenditure information that should be reported?**

Response: The Committee does not believe the proposed fee reporting requirements are appropriate.

As discussed in the General Comments section above, the Committee questions if proposed additional disclosure requirements fall within the PCAOB's remit. Chair Williams herself said, "*Congress has placed strict limits on the scope of our authority*" and, "[a]s a general matter, audit firms registered with the PCAOB must follow PCAOB standards and rules specifically in connection with their audits of SEC-registered issuers, brokers or dealers only."

The proposal would "*require firms to report: fees for audit services, in total and from issuers, broker-dealers, and other companies under audit (delineating sources, e.g., fees from private company audits and custody rule audits); fees from other accounting services; fees from tax services; and fees from non-audit services.*" This reporting requires specific fee information not associated with a firm's PCAOB practice and seemingly beyond the Board's authority.

**Question 10: What would be the anticipated effects if the financial statements were submitted without the confidentiality provisions? Should the PCAOB allow the confidentiality provisions to expire after the passage of a period of time? If so, what would be a reasonable period of time?**

Response: As previously stated in this letter, the Committee believes that if financial statements are required to be submitted, the information should be confidential and the PCAOB should not allow the confidentiality provisions to ever expire, similar to information submitted during the inspection process. We commend the Board's intent behind the requirement to provide the Board with more insight into a firm's audit practice, the relationship of its audit practice to its overall business, and the overall financial stability of a firm. However, there may be unintended consequences of competitors potentially gaining access to this information for a specific firm, especially if the confidentiality provisions were not to remain in place or if there was a breach within the PCAOB. Additionally, if the confidentiality provisions were allowed to expire, it is uncertain how meaningful it would be to stakeholders having outdated financial information, particularly since it may not be reflective of the current economic performance of the audit firm.

**Question 13: Is the requirement that financial statements be presented in accordance with an applicable financial framework reasonable? Are the accommodations allowed during the interim transition period reasonable? Are there exceptions or modifications to the applicable financial reporting framework that we should accept?**

Response: The proposed requirement for the "largest firms" to provide annual financial statements presented in accordance with an applicable financial framework, such as accounting principles



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generally accepted in the United States of America (“GAAP”), is not reasonable, and similar to our General Comments and response to Question 8 above might fall outside the PCAOB’s remit. Most firms are not required to, and thus likely do not prepare, GAAP financial statements. Under the requirement, firms would have to make a significant investment of time and resources to establish the reporting processes necessary to prepare GAAP financial statements, as well as incur additional costs to maintain those processes to be able to produce GAAP statements on an annual basis. It may also be necessary to educate investors on how to digest the information provided in these statements since these are not the issuer statements they may be accustomed to reading. Also, significant time and resources would be needed to reconcile non-conforming financial statements to GAAP statements, as well as identifying the information that is not readily available to prepare GAAP statements, even during the proposed transition period. These costs could significantly outweigh any potential benefit to stakeholders and inadvertently shift a firm’s focus and resources away from audit quality.

It should be noted that firms have varying organization structures that may include more than just the operating entity. Preparing GAAP financial statements may require the consolidation of any wholly owned subsidiaries and/or variable interest entities, which may not just be limited to international businesses (who all have separate PCAOB accreditations), but potentially other service lines (tax, advisory, etc.) depending how the business is structured. This could potentially provide the Board with more information than is intended under the requirement, as well as require even more time and resources to prepare GAAP consolidated financial statements. Additionally, the lack of comparability due to the unique operations and financial results of the firms may not be meaningful to investors.

Under the proposed requirement, the annual financial statements to be provided by firms would not be required to be audited. The Committee questions how useful this unaudited information will be to the Board from what is already provided in Form 2. Further, if the Board were to make it a requirement to submit audited annual financial statements, which we do not support, firms would be required to retain a third-party resource to audit the financial statements. If these resources would be retained from other registered firms, this may disrupt the market and impact competition which would change the audit profession. If these resources would be derived from the Board, there may be a conflict of interest and would remove resources from important oversight responsibilities.

**Question 38: Should cybersecurity incident reporting be completely confidential or should there be some degree of public reporting? Is the proposed cybersecurity incident reporting requirement formulated clearly?**

Response: The Committee believes that cybersecurity incident reporting should be completely confidential. Incidents related to a breach of sensitive information are already required to be disclosed under federal and state laws to parties affected by a breach, so it is uncertain what usefulness the additional reporting requirements would provide to investors.

Additionally, the proposal is unclear in certain aspects of the incident reporting. The proposal defines “significant cybersecurity incidents” as *“those that have significantly disrupted or degraded the firm’s critical operations, or are reasonably likely to lead to such a disruption or degradation...”* The concept of “reasonably likely” is a matter of judgment, particularly within the proposed five-day reporting period. The Committee is concerned that this threshold may result in inconsistent incidents being reported depending on each firm’s judgment, which may provide incomparable data for the Board and for investors. Additionally, we encourage the Board to clarify how an incident is defined for reporting purposes. It is uncertain whether breaches as defined in the proposal include only direct breaches to the audit firm network or if breaches include any consequences of breaches to clients or service providers to the audit firm.



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**Question 45: Are there any unintended consequences of our proposed approach? If so, what are they?**

Response: As noted in the proposal under Unintended Consequences, our concerns are related to the detail of disclosure that would be required. The proposal states that “*investors, audit committee and other stakeholders, and the PCAOB would benefit from the information regarding a firm’s policies and procedures.*” The Committee suggests the Board clarify how high-level or specific the firm policies and procedures would be to be meaningful to investors, as well as to reassess which reported information would be available to the public. High-level descriptions of policies may not provide investors with enough meaningful information to assess a firm’s vulnerability to cybersecurity threats. Conversely, more specific disclosures made public could potentially provide enough information for other parties such as hackers to identify cyber-vulnerabilities within the firm's policies and procedures.

**Question 46: Would this update be useful to investors, audit committees, and other stakeholders?**

Response: As noted above in our general comments, portions of the proposal are duplicative with each other as well as both duplicative of and inconsistent with QC 1000. The Committee suggests the Board remove duplicative or inconsistent requirements. The following areas were noted as duplicative or inconsistent:

- The proposal would call for public disclosure while QC 1000 would be confidentially submitted.
- Within the proposal itself, there is duplication (e.g., Items 1.4.a and 1.4.e would require the same information regarding the identity of the firm’s principal executive officer).
- Reporting requirements in proposed Form 2, Items 1.4.a and 1.4.c are duplicative of those found in QC 1000.

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  
Timothy Delany, CPA  
Erik De Vries, CPA  
Kara Fahrenbach, CPA  
Emily Hoaglund, CPA  
James R. Javorcic, CPA  
Kelly Kaes, CPA  
Alek Michali, CPA  
Michael Potoczak, CPA  
Jon Roberts, CPA  
Amber Sarb, CPA

Ashland Partners & Company LLP  
RSM US LLP  
CohnReznick LLP  
Plante Moran, PLLC  
KPMG LLP  
Mayer Hoffman McCann P.C.  
Grant Thornton LLP  
Baker Tilly US, LLP  
Marcum LLP  
BDO USA, P.C.  
RSM US LLP

##### **Regional:**

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Andy Kamphuis, CPA  
Genevra D. Knight, CPA  
Matthew Osiol, CPA  
Michael Ploskonka, CPA

Roth & Co., LLP  
Vrakas CPAs + Advisors  
Porte Brown LLC  
Topel Forman LLC  
Selden Fox, Ltd.

##### **Local:**

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Lorena C. Engelman, CPA  
Mary Laidman, CPA  
Carmen F. Mugnolo, CPA  
Jodi Seelye, CPA

ORBA  
CJBS LLC  
DiGiovine, Hnilo, Jordan & Johnson, Ltd.  
Mugnolo & Associates, Ltd.  
PKF Mueller, LLP

##### **Industry/Consulting:**

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