

June 7, 2024

Ms. Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K St, NW
Washington, DC 20006-2803

PCAOB Release No. 2024-003, April 9, 2024: PCAOB Rulemaking Docket Matter No.055

Dear Secretary Brown and PCAOB Board Members:

Johnson Global Advisory is pleased to submit its comments on the proposed amendments to reporting requirements for registered firms.

Johnson Global Advisory's mission is to be the most innovative and technically excellent advisory firm at the intersection of companies, auditors, and regulators, which improves investor decision-making confidence. We serve a diverse group of audit firms ranging from single office firms to more complex regional firms and the top 20 firms. We help firms interpret, respond, and comply with global auditing and financial reporting standards and regulatory requirements, including those standards set by the PCAOB. Our team of financial reporting quality advisors helps prepare firms to perform high-quality audits using innovative tools with a shared commitment to implement effective policies, procedures, and controls. We also provide firms with integrated software and service solutions to help them comply with audit quality standards.

Overall, we support the PCAOB's objective to improve audit quality, enhance investor protection, and further the public interest in preparing informative, accurate, and independent public audit reports. However, we are concerned that the current proposal adds extensive reporting obligations on registered audit firms and may divert resources and attention away from efforts to improve audit quality.

The Board proposes to expand the existing auditor reporting requirements to require firms to:

- Disclose information regarding a firm's network arrangements; leadership and governance structure [Form 2]
- Disclose fees collected and client base [Form 2]
- Submit (confidentially) financial statements to the PCAOB – for the largest firms [Form 2]

- Report events or matters that trigger a Special Report within 14 days vs the current 30-day requirement. Triggering events or matters are expanded to require reporting of events or matters that pose a material risk, or a material change to a firm's organization, operations, liquidity or financial resources or ability to provide audit services. [Form 3]
- Report significant cybersecurity incidents within 5 business days, on a confidential basis and public reporting of a description of a firm's policies and procedures to identify, assess and manage cybersecurity risks
- Update a firm's quality control policies currently provided in the firm's application [new Form QCPP]

While we agree that much of this information is important, we encourage the Board to explore rationalizing and simplifying the information requested and conducting further outreach and research prior to adopting the proposal.

Rationalize and simplify

Combined with the *Firm and Engagement Metrics* proposal, this proposal introduces some complex disclosures and calculations. The proposal requests firms report data in multiple forms with varying dates. For example, firms would report audit fee information in Form 2 on June 30 and audit hours worked in the new form FM, Firm Metrics, on November 30. Both elements are related yet reported for different periods in different forms. Data reported as part of QC 1000 (for example, individuals responsible for various components of the QC system, the executive officer overseeing the audit practice) must also be reported on Form 2. While the Board aims to provide enhanced information to stakeholders, the volume and mix of the information may create information overload and confusion, and inconsistent data will not provide useful information. We encourage the Board to study further, evaluate, and prioritize the critical data for stakeholders before requiring firms to invest in infrastructure to meet the new requirements.

In addition to these reporting forms, the Board already requires firms to provide extensive information for inspection purposes. The Board should consider streamlining these processes so that firms are only required to submit data once. From our discussions with small firms, we understand that providing this information (including updating information when inspection timing changes) is labor-intensive. We also suggest the Board evaluate whether all the data points remain relevant and whether it could propose eliminating specific data points to alleviate the disclosure and reporting burden.

Provide illustrative examples of the disclosures

The proposal requires specific disclosure about firm network arrangements, leadership, and governance structure in Form 2. The proposal broadly describes these as:

- the legal and ownership structure of the network, network-related financial obligations of the registered firm (e.g., loans and funding arrangements between the registered firms and the network member firms)

- information-sharing arrangements between the registered firm and the network (including both sharing of such information as training materials, audit methodologies and sharing of client information)
- network governing boards or individuals to which the registered entity may be accountable.

While this request is more specific than the existing requirements, we encourage the Board to define further the existing terms and how the Board expects firms to report the information. Without this specificity and illustrations, the data provided may not address the comparability of information that the Board states investors and audit committees need.

Clarify existing disclosures rather than add new ones

The Board states in the proposal on page 9 that the PCAOB staff has “*at times found that voluntarily and mandatorily reported information to be incomplete, inaccurate, or insufficiently detailed. For example, the staff has found fee information reported on the Annual Report Form insufficiently specific, inconsistently reported from year to year with respect to methodology or not reported in accordance with form instructions....*” The Board does not discuss in the proposal whether adding further definition to the existing data requested could improve the data and comparability amongst firms. We encourage the Board to consider this option; better defining the existing data reported may improve comparability without firms incurring additional cost to provide additional data points.

Further research is needed on the implications of requiring firms to disclose this level of information. In addition to the cost firms will need to incur to present this level of detail and in combination with the firm metrics proposed in the *Firm and Engagement Metrics* proposal, we are concerned that this level of disclosure may impact the competitiveness of firms, especially smaller firms, and de-value the audit itself. In addition, the disclosure of both elements provides the marketplace with the average rate per hour that firms charge issuers, and this effect needs further study.

Provide additional time to study

We are concerned that firms may not have had sufficient time to evaluate this proposal properly and, in combination, the *Firm and Engagement Metrics* proposal. We encourage the Board to seek further outreach with firms, particularly smaller firms, to understand the proposals' implications better. Pilot studies of the requirements would aid the Board and firms in evaluating the cost/benefits of the proposed changes while also identifying challenges in understanding expectations.

We set out our comments on selected questions posed by the Board in the proposal in the attached Appendix.

We appreciate the opportunity to provide our comments and support the PCAOB’s efforts to improve auditing standards to enhance audit quality and better protect investors. We would be pleased to discuss our comments with you at your convenience. Please direct any questions to

Jackson Johnson, President (jjohnson@jgacpa.com) or Geoff Dingle, Managing Director and Shareholder (GDingle@jgacpa.com) or Santina Rocca, Managing Director (SRocca@jgacpa.com). They may be reached at (702) 848-7084.

Sincerely,

Johnson Global
Advisory
Johnson Global Advisory

Appendix A

- 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?**

We encourage the Board to consider improving the current system to facilitate the reporting of information and the user access to the information. Obtaining and accessing this information from the current PCAOB website is challenging. In addition, the information is often reported for different periods making it difficult for users to access. We express concern that adding further information will not address the goal of getting the relevant information into the hands of the audit committees. Providing this additional information would be costly – especially for smaller firms. While standardizing information provided by firms could improve comparability, we have concerns about a number of the proposed enhanced reporting requirements as further described in the questions that follow.

- 2. Should the Board consider enhanced reporting in the area of auditor resignations, withdrawals, or dismissals? The Board’s current rules require auditor reporting of auditor changes only where the issuer has failed to comply with its Form 8-K requirements. Should we consider requiring audit firm reporting of resignations, withdrawals, or dismissals, irrespective of issuer compliance with its reporting obligations?**

This information is already publicly available and would unnecessarily add further cost.

- 3. In its 2023 Annual Report, the Financial Stability Oversight Council discussed the heightened vulnerability of the financial system to certain factors. Should any of these elements discussed in this report be considered in our new reporting rules? Why or why not?**

Safety and soundness of the profession is vital to our capital markets. We appreciate the PCAOB taking steps to monitor the potential sources of threats to the catastrophic risk that would threaten audit quality. We remain unclear on how the Board intends to use this information, and how financial information, on its own, will aid in the monitoring of the profession.

The Board indicates that it already has access to the financial information requested by this proposed rule change, although firms prepare the information in varying formats. As the Board can request the information it needs to oversee the firms, we remain unclear as to why the rules are expanded to include this additional requirement that would remain confidential.

We further express concern that access to financial information, on its own, will not provide comfort over safety and soundness. Rather, a focus and investment in audit quality is the best defense to maintain safety and soundness in the profession. We encourage further

consideration of the steps the Board can take to clarify their expectations of auditors and what “good looks like”.

Confidentiality

- 6. Should smaller firms, like sole proprietors, be subject to a different confidential treatment regime as some of the information to be publicly reported per this release may not already be publicly available?**

We would prefer to provide exemptions for smaller firms as we expect collecting and reporting the requested information would be costly. If the rule remains, we support providing the option to request confidential treatment.

Financial Information

- 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?**

The proposal requires audit firms to disclose total fees billed to all clients for services reporting in the reporting period audit fees for issuers, brokers-dealers and audit service for others as set out below.

1. Audit services:
 - a. Audit services for issuers
 - b. Audit services for broker-dealers
 - c. Audit services for others [indicate the nature of other audit clients (e.g. private company audits, custody rule audits) and fees billed for each category of other audit clients]
2. Other accounting services
3. Tax services
4. Non-audit services

The Board states the fee information currently provided in percentages is mixed and it is difficult compare across firms. The Board does not discuss in the proposal whether adding further definition to the existing data requested could improve comparability amongst firms. We encourage the Board to consider this option; better defining the existing data reported may improve comparability without firms incurring additional cost. We also recommend that the Board examine the economic costs to firms and how that weighs against the benefits to investors, audit committees and other stakeholders for providing such information and consider rescinding its current requirement to provide such information.

We also believe that further research on the implications of requiring firms to disclose this level of information is needed. In addition to the cost firms will need to incur to present this level of detail and in combination with the firm metrics proposed in the Firm Metrics and Reporting proposal, we are concerned that this level of disclosure may impact the competitiveness of firms, especially smaller firms, and de-value the audit itself.

20. Should we consider changing the reporting period (April 1 through March 31) and reporting deadline (June 30) of Form 2 in light of the additional proposed financial reporting items, or any of the other additional proposed period reporting items? Should we consider revising the Form 2 reporting period and deadline to align with the reporting period and deadline for Form FM included in the Firm and Engagement Metrics proposal, for example?

We encourage the Board to further study the reporting periods and deadlines. We believe that the process could be further refined and rationalized to ensure that data collected is available for stakeholders in a useable format. We support more consistent dates rather than adding onto existing processes that do not provide the information needed.

We express concerns that expanding the number of requests and the related timing will create more confusion and make it more challenging and costly to comply. We recommend further study of the form reporting process and rationalizing the data requests. The current forms, varying deadlines and expanded requirements are imposing significant hurdles on firms, especially smaller firms. The hurdles are not simply limited to collecting and providing the information, but firms now need more staff to oversee this process and consequences of errors are severe.

Governance

22. Are the proposed requirements for audit firm governance information clear and appropriate? Will they elicit useful information for investors, audit committees, and other stakeholders? Should we consider additional requirements?

While we agree that governance of firms is important and have an impact on audit quality, we recommend the PCAOB further define or provide illustrative examples of the terms and the expected disclosures for the governance related information.

Generally, we find this proposed requirement burdensome and excessive, particularly when considering that firms operate in a dynamic environment and may alter their structures and change personnel on a frequent basis. Further, we are not clear of the benefits to investors, stakeholders or the general the public or how they would even use this information. While information of this nature may be helpful for PCAOB oversight,

the PCAOB is quite capable of requesting and reviewing this information as part of its Inspections process. Likewise, audit committees in their capacity of overseeing the governance of auditors would be able to request and secure whatever information they determine necessary to assess an audit firm and its ability to deliver its services.

We find the Board's statement that the IOSCO study was "extensive" unsupported. According to the IOSCO report, it held one "roundtable" and received 21 comment letter responses (only five of which were from audit firms), and obtained input from "several audit oversight bodies," among a few other things. IOSCO's study is simply not comprehensive enough to prompt a costly and excessive requirement proposed by the Board. Before imposing this requirement, especially, on smaller firms, we recommend further research and study on the expected outcomes. We also recommend that if the Board pursues such a requirement that ample consideration be given to exempting smaller firms or a certain subcategory of smaller firms.

Network information

28. Is the enhanced network information appropriate and will the network related requests elicit useful information for investors, audit committees, and others?

The Board proposes to require firms to describe within Form 2:

- the legal and ownership structure of the network, network-related financial obligations of the registered firm (e.g. loans and funding arrangements between the registered firms and the network member firms)
- information-sharing arrangements between the registered firm and the network (including both sharing of such information as training materials, audit methodologies and sharing of client information)
- network governing boards or individuals to which the registered entity may be accountable.

The Board asserts that this information would be important for investors, audit committees and other stakeholders to assess the resources a registered firm may develop to audit engagements and other aspects of its audit practice. We are unclear how this additional information would be used by investors, audit committees and other stakeholders and may be costly for firms to assemble to report.

While this request is more specific than the existing requirement, we encourage the Board to further define the existing terms and how the Board expects firms to report the information. Without this specificity and illustrations, the data provided may not address the comparability of information that the Board states investors and audit committees need.

29. Should we consider further limiting the types of networks that are subject to the proposed enhanced requirements or, for example, consider tiered requirements under which smaller firms would be required to disclose a reduced set of items?

We support limiting the types of networks that are subject to the requirements to reduce the cost and reporting burden on smaller firms. In particular, the terms are not clearly defined or illustrated for firms to readily understand what it is expected in the reporting. We encourage the Board to do further research and engage with smaller firms to better understand the implications of the reporting.

30. Should we consider requesting network membership agreements as part of the requirements for network information? If so, should they be confidentially or publicly reported to the PCAOB?

We support reporting confidentially only.

Special Reporting

32. Is 14 days sufficient time for smaller firms or non-U.S. firms to comply with the proposed reporting requirement?

We do not agree that 14 days is sufficient time for smaller firms or non-US firms to comply. We often observe firms struggling to comply with the current 30 days deadline. We recommend that the PCAOB take into account the fact that smaller firms do not have full time departments of lawyers and other professionals (similar to the large firms) whose only job is to monitor compliance with PCAOB reporting forms.

33. Currently, for special reporting, the firm is deemed to have become aware of the relevant facts on the date that any partner, shareholder, principal, owner, or member of the Firm first becomes aware of the facts, triggering the reporting obligation. Is this a reasonable trigger for the beginning of the special reporting timeframe? Should the trigger for material event reporting be different, i.e., the date on which the firm determines the event to be material?

We agree that the trigger for a material event reporting should be different than the date on which the firm determines the event to be material. This would provide sufficient time for the firm to evaluate all of the impacts of the event prior to reporting to the PCAOB.

Cybersecurity

38. Should cybersecurity incident reporting be completely confidential or should there be some degree of public reporting?

We support confidential reporting of cybersecurity incidents. The public reporting should be considered as needed by the registered firm based on the nature of the incident.

39. Should the reporting be more prompt? Should we require, for example, that cybersecurity incidents be reported immediately, or with all practicable speed but no later than five business days?

We believe longer periods are needed for smaller firms with less resources. We encourage further research/outreach with smaller firms to determine an appropriate timeframe. We agree reporting is important, but we believe that it is more important for firms to first take the appropriate steps to address the incidents. We believe that a firm's focus should be on addressing the matter rather than reporting the matter.

Updated Description of QC Policies and Procedures

46. Would this update be useful to investors, audit committees, and other stakeholders?

We encourage the Board to consider whether a statement of a firm's QC policies and procedures encourages the integrated and control related framework of QC 1000. While we agree updated information is valuable, we are concerned that this suggests a simple statement suffices for an ongoing system of quality management.

48. Would any other procedural approach (e.g., in conjunction with any other PCAOB form) be more efficient for firms or more helpful for public access to information?

Yes, we recommend that Form 2 be enhanced to provide the relevant information annually instead of creating another form. The Board could then obtain updates annually on that form together with all of the other information required on Form 2. The Board could also consider timing the implementation of QC 1000 together with the annual Form 2 reporting deadline.

Need

- 52. Have we appropriately described the problem and how the proposal would address it, including investor and audit committee needs for consistent and comparable information across audit firms and over time? If not, how can we improve the analysis?**

There is no need for any additional reporting. Important information should be available at the Audit Committee's request and does not need to be regulated. AS 1301 already places a lot on the shoulders of the auditors; ideally, these communications should be the responsibility of the audit committees to a larger degree than audit firms.

Benefits

- 55. Have we appropriately described the benefits, including potential benefits for smaller firms or issuers and including potential benefits that would accrue to investors and audit committees? If not, how can we improve the analysis?**

We do not agree that benefits will accrue to smaller firms and encourage further study and research.

Costs

- 59. Have we appropriately described the costs, including potential costs for smaller firms or issuers? If not, how can we improve the analysis?**

Costs to comply with PCAOB reporting requirements (including sweep enforcement actions) for smaller firms may become prohibitively high. We already observe many smaller firms exiting public company audits and that will continue to put even more pressure on time constraints.

Unintended consequences

- 63. Have we appropriately described the potential unintended consequences? If not, how can we improve the analysis?**

Due to increasing difficulties complying with PCAOB reporting requirements (including sweep enforcement actions), we already observe many smaller firms exiting public company audits and that continues to put even more pressure on time constraints. Unintended consequences would be less firms performing public company audits and reduces choices for smaller public companies.