

# Request for Comment

## Interim Analysis of Critical Audit Matter Requirements



April 17, 2020

## I. Introduction

The Public Company Accounting Oversight Board (PCAOB) is committed to fully understanding the impact of the critical audit matter (CAM) requirements on audit firms, preparers, audit committees, investors, and other financial statement users. As part of that commitment, the staff of the PCAOB's Office of Economic and Risk Analysis is conducting an interim analysis to assess the phased implementation of the CAM requirements. The Securities and Exchange Commission has set out an expectation that the PCAOB would complete "a post-implementation review as soon as reasonably possible, including some analysis between effective dates for CAMs."<sup>1</sup>

The staff is conducting the interim analysis to gain an initial understanding of how auditors responded to the CAM requirements, whether and how investors are using CAM communications, and audit committee and preparer experiences. The staff will also evaluate whether early evidence from the implementation of CAM requirements is suggestive of significant costs, benefits, or unintended consequences. The PCAOB will carefully evaluate the evidence obtained from the analysis and consider whether additional guidance or other steps may be appropriate.

<sup>1</sup> See Securities and Exchange Commission Release No. 34-81916, *Public Company Accounting Oversight Board; Order Granting Approval of Proposed Rules on the Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards* (Oct. 23, 2017).

The PCAOB staff encourages all interested parties to comment. Comments should be submitted through one of the following methods:



**By email**

[comments@pcaobus.org](mailto:comments@pcaobus.org)



**Through the PCAOB website**

[www.pcaobus.org](http://www.pcaobus.org)



**By postal mail**

**Office of the Secretary, PCAOB, 1666 K Street, NW, Washington, DC 20006-2803.**

All comments should refer to Interim Analysis No. 2020-01, Critical Audit Matter Requirements, on the subject or reference line and should be submitted no later than **June 15, 2020**. All comments received in response to this request for comment will be made available to the public and posted on the PCAOB website. You are encouraged, but not required, to provide your name and professional affiliation. You are also encouraged to state whether you are commenting from the perspective of a preparer, audit committee member, auditor, investor, or other type of stakeholder. In general, the PCAOB will post comments as they are received. Questions regarding this request for comment should be directed to:



**Michael Gurbutt, Deputy Director,  
Economic Analysis and Operations,  
Office of Economic and Risk Analysis  
(202-591-4739, [gurbuttm@pcaobus.org](mailto:gurbuttm@pcaobus.org)).**

To inform the interim analysis, the staff of the PCAOB's Office of Economic and Risk Analysis is conducting surveys and targeted interviews of impacted stakeholders including auditors, preparers, audit committee members, investors, and other financial statement users. This request for comment supplements those data collection activities and provides a mechanism for all interested stakeholders to provide information on initial experiences with CAM implementation. The PCAOB expects to produce a report in the fourth quarter of 2020 to communicate findings and provide stakeholders with early insights into initial CAM implementation.

The PCAOB staff will also conduct a post-implementation review of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, after a reasonable period of time following the full implementation of the standard. The post-implementation review will also be made available to the public. Further information on [post-implementation reviews](#) is available on the PCAOB website.

## II. Background Information

In 2017, the PCAOB adopted and the Securities and Exchange Commission approved AS 3101. Among other things, the standard requires the auditor to communicate CAMs. A CAM is defined as any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment. For each CAM communicated in the auditor's report, the auditor is required to: (1) identify the CAM; (2) describe the principal considerations that led the auditor to determine that the matter is a CAM; (3) describe how the CAM was addressed in the audit; and (4) refer to the relevant financial statement accounts or disclosures that relate to the CAM. The CAM requirements are in effect for audits of large accelerated filers with fiscal years ending on or after June 30, 2019. The second effective date, which impacts audits of all other companies to which the requirements apply, is for audits of fiscal years ending on or after December 15, 2020.

The PCAOB adopted the standard to make the auditor's report more relevant and informative to investors and other financial statement users by requiring more information about the audit. The communication of CAMs arising from the audit is intended to inform investors and other financial statement users about matters that required especially challenging, subjective, or complex auditor judgment, and the response that the auditor had to those matters.

**Further information on the new auditor's report is available on the PCAOB website.**

## III. Request for Comment

The PCAOB staff is seeking comment on stakeholders' initial experiences with CAMs. You are encouraged to respond to any or all of the following questions. In all cases, the staff encourages commenters to provide data, evidence, and/or specific examples in support of comments. Given that different stakeholders may have different experiences with CAMs, commenters may find certain questions more relevant to their experiences.

### Questions for investors, analysts, and other financial statement users:

1. Have you as an investor, analyst, or other financial statement user read any auditors' reports that contain CAMs? Approximately how many? Why did you read them? Prior to CAM implementation, did you read auditors' reports?
2. What effects, if any, have investors, analysts, or other financial statement users experienced from the communication of CAMs in the auditor's report? For example, have any of the following changed as a result of CAM communications:
  - Ability to analyze companies' financial statements or make investment decisions
  - Content of analyst reports or internal buy/sell/hold recommendations
  - Interactions with management, such as developing new or better-informed questions

- Understanding of disclosures made by company management (e.g., in MD&A)
- Understanding of auditors' work
- Proxy voting decisions, including ratification of the audit committee's choice of external auditor

Please describe how CAM communications contributed to the changes and, if applicable, whether you anticipate additional changes in the future.

3. If you are an investor, analyst, or other financial statement user who has read CAMs for multiple public companies, did you find some CAMs to be more useful than others? If so, what were the factors that made them more useful?

**Questions for preparers, audit committee members, and auditors:**

4. Have preparers and audit committees experienced any changes in the financial reporting process as a consequence of CAM communications in the auditor's report? For example, has the communication of CAMs led to changes in controls or practices around financial reporting and disclosure? Did CAM communications result in any reconsideration of, or changes to, disclosures management made in company filings (e.g., notes to the financial statements, critical accounting estimates, MD&A, or risk factors)?
5. Have CAM communications had any impact on how audit committees approach their role and responsibilities?
6. Have auditors or preparers experienced any changes in a specific audit because of CAM requirements? For example, were there changes to the nature, timing, or extent of audit procedures performed on matters identified as CAMs, not because of changes in circumstances but because of CAM requirements?
7. Did CAM requirements lead to changes in communications between auditors, audit committees, or preparers? For instance, were there changes in the nature or frequency of communications during the audit process? Did audit committee members ask more or different types of questions? Was there more focus on matters that were identified as CAMs?
8. Based on your experience as a preparer or auditor, what were the most significant activities that led to CAM-related costs? First, please describe each activity, including any preparatory activities (e.g., pilots or dry-runs). Next, please estimate the total costs related to CAM requirements in hours (and external spend, if applicable) for each of those activities for each calendar year from 2017-2019 and the period January-April 2020, distinguishing, to the extent possible, between costs related to preparatory activities and costs related to recurring activities. Finally, for any activities that will be recurring, state whether you believe the costs will increase, decrease, or not change for each activity in future years.

**Costs to preparers may include:**

- Fees paid to third parties, including the portion of audit fees attributable to CAM communications and legal fees arising from review of CAM communications
- Time spent by company employees and audit committee members on CAM communications
- Other incremental labor costs directly related to CAM communications

**Costs to audit firms may include:**

- Development and implementation of audit policies, procedures, methodology, tools, guidance, review processes, and other infrastructure directly related to CAMs
- Development and delivery of training directly related to CAMs, including time spent by individuals attending the training

- Designing and conducting pilot or dry-run programs
  - Labor costs to identify, draft, and review CAMs; prepare documentation related to the determination of whether a matter is a CAM; draft communications related to CAMs; and engage in CAM-related discussions with national office resources, preparers, and audit committees
  - Other incremental labor costs directly related to CAM communications
  - External spend directly related to CAM communications
9. From your perspective as an auditor or preparer, at which stages of the audit process did most of your activities related to CAMs occur? Did the majority of your effort occur before or after the company's fiscal year end? What factors contributed to the timing of your efforts related to CAMs?

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