Staff White Paper

Stakeholder Outreach on the Initial Implementation of CAM Requirements

October 2020¹

Michael J. Gurbutt  
_Deputy Director, Office of Economic and Risk Analysis, PCAOB_

Wei-Kang Shih  
_Associate Director, Office of Economic and Risk Analysis, PCAOB_

Carrie von Bose  
_Financial Economist, Office of Economic and Risk Analysis, PCAOB_

¹ The views expressed in the paper are the views of the authors and do not necessarily reflect the views of the Board, individual Board members, or other PCAOB staff. In preparing this paper, we benefited from insightful comments received during discussions with PCAOB staff and Board members. We would also like to thank Nayantara Hensel and Alycia Chin for helpful discussions and comments. In addition, we are grateful to Peter Pacilio, Zoe Pham, Vikram Ramadas, and Thomas Wanat for their research support.
# TABLE OF CONTENTS

I. Executive Summary ........................................................................................................ 4

Key Findings from Stakeholder Outreach ......................................................................... 4

II. Scope and Analytical Framework ................................................................................... 6

III. Auditor Outreach ............................................................................................................ 6

Firm-Level Costs .................................................................................................................. 7

Effects of CAMs on Audit Hours and Audit Procedures ...................................................... 8

Effects of CAMs on Auditor/Audit Committee Communication ........................................ 9

Effects of CAMs on Company Disclosures and Processes ................................................ 10

Other Engagement Partner Comments on CAMs ............................................................... 10

IV. Investor Survey .............................................................................................................. 11

CAM Awareness .................................................................................................................. 11

Current Use of CAMs ......................................................................................................... 11

Future Use of CAMs ........................................................................................................... 12

CAM Perceptions ............................................................................................................... 12

V. Interviews of Audit Committee Chairs and Financial Statement Preparers ..................... 12

Preparing for CAM Implementation .................................................................................... 13

Communications with Auditors ........................................................................................ 13

Effects of CAMs on Audit and Financial Reporting Quality ............................................... 13

Perspectives on Investor Use of CAMs ............................................................................... 14

Costs to Issuers .................................................................................................................... 14

VI. Responses to Public Request for Comment ................................................................ 14

Appendix A: Tables ............................................................................................................. 17

Appendix B: Audit Firm survey Data Collection Instrument .............................................. 23

Questionnaire ...................................................................................................................... 23

Appendix C: Engagement Partner Survey Data Collection Instrument ................................ 25

Section 1: Introduction ........................................................................................................ 25

Section 2: Engagement Partner Information ....................................................................... 25

Section 3: Engagement Information ................................................................................. 26

Section 4: Audit Procedures ............................................................................................... 27

Section 5: Communication ............................................................................................... 28

Section 6: Costs ................................................................................................................. 28

Section 7: Non-LAF CAMs Dry Runs ............................................................................... 29

Section 8: Concluding questions ...................................................................................... 30

Appendix D: Investor Survey Data Collection Instrument ................................................ 31

Module A: Introduction ...................................................................................................... 31
Module B: Eligibility screening .................................................................31
Module C: Background/Professional Use ..............................................33
Module D: Effects of Critical Audit Matters (CAMs) and perceptions of CAMs among users .............................34
Module E: Experiment on CAM attributes .............................................39
Module G: Demographics and wrap up ..................................................42
Module H: PCAOB Email Lists .................................................................44

Appendix E: Audit Committee Chair and Financial Statement Preparer Interview Guides .......... 45
Audit Committee Chair Interview Protocol ............................................45
Financial Statement Preparer Interview Protocol ....................................47
I. EXECUTIVE SUMMARY

The PCAOB is committed to understanding the impact of critical audit matter (CAM) requirements on audit firms, preparers, audit committees, investors, and other financial statement users. As part of that commitment, Office of Economic and Risk Analysis (ERA) staff has performed an analysis to assess the initial implementation of the CAM requirements. To provide transparency around our findings, ERA staff has prepared two white papers to provide insight into the technical details of our analysis. This white paper provides information regarding the results of stakeholder outreach efforts related to initial CAM implementation. The other white paper, “Econometric Analysis on the Initial Implementation of CAM Requirements,” presents results from econometric analysis on the initial effects of CAM implementation on audits and capital markets. Collectively, these two papers provide early evidence on the initial implementation of the CAM requirements.

This paper presents results from surveys of engagement partners and audit firms, structured interviews with audit committee chairs and financial statement preparers, a survey of investors, and a public request for comment. We examine the initial impact of the CAM requirements on each of these stakeholder groups based on analysis of qualitative and quantitative data.

Key Findings from Stakeholder Outreach

- **Firm-Level Costs:** Audit firms participating in our survey reported making significant investments to prepare for CAM implementation, including conducting pilot and dry run programs, creating tools and guidance, training their personnel, establishing networks of CAM subject matter experts, and developing consultation and review protocols for draft CAM communications. Big Four firms provided estimates indicating that, on average, through April 2020, these firms spent around 23,000 hours developing processes and procedures to support CAM implementation (53% at the partner level) and 14,600 hours training the firm’s personnel (32% at the partner level). Other firms participating in our survey spent, on average, about 3,700 hours supporting CAM implementation (41% at the partner level) and 3,100 hours on training personnel (30% at the partner level). Differences in time spent developing processes and procedures to support CAM implementation and training firm personnel likely reflect differences in firms’ client portfolios. Big

---


3 The staff is unable to evaluate all possible costs and benefits of the CAM requirements (e.g., because some potential effects may take more time to manifest or stabilize). In addition, the results presented in this paper may not be predictive of the effect of the CAM requirements for audits of other companies to which the requirements will apply. In some cases, results are based on limited data and may not be generalizable to the entire stakeholder population. Further discussion of economic considerations related to the CAM requirements is available in the PCAOB’s Adopting Release.

4 Outreach to firms included all audit firms with at least 15 large accelerated filer (“LAF”) clients. Eight firms were included, and the results are reported separately for the Big Four audit firms and for the remaining four firms. Big Four firms are Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP. The other four firms that participated in the survey are BDO USA LLP, Crowe LLP, Grant Thornton LLP, and RSM US LLP.

Stakeholder Outreach on the Initial Implementation of CAM Requirements | 4
Four firms each have an average of 465 LAF clients and 323 non-LAF clients, and the other four firms participating in our survey each have an average of 39 LAF clients and 142 non-LAF clients.5

- **Engagement-Level Costs:** Engagement partners reported that, on average, about 1% of total audit hours were spent identifying, developing, and communicating CAMs in the first year of implementation. Approximately two-thirds of this time was spent prior to the issuer’s fiscal year-end. Only a small number of engagement partners (3%) reported making changes to the nature, timing, or extent of audit procedures because of requirements to communicate CAMs.

- **Investor Usage and Perspectives of CAMs:** Investor awareness of CAMs is still developing. Some investors have begun reading CAMs as they analyze companies and have found them useful for better understanding the work of the auditor, better understanding financial statement disclosures, and developing questions for company management. Most respondents to the investor survey considered CAMs to be tailored to the audit (72%), and most thought that CAMs were easy to understand (55%).6 Most respondents reported that they were likely to use CAMs in the future (e.g., 66% reported that they were likely to use CAMs to identify risks associated with a given company). Investors who had seen CAMs were given an open-ended prompt asking them to share two reasons why they would or would not use CAMs in the future. Of 21 responses, eight said they would use CAMs in the future, four said they might use CAMs in the future, and nine said they would not use CAMs in the future. Of those who said they would use CAMs, a common theme was that CAMs helped to highlight areas that were particularly subjective or more difficult to audit. Among those who said they would not use CAMs, participants said that CAMs are not specific enough to provide useful information or do not provide additional value above and beyond what is already included in financial statements.

- **Impact of CAMs on Issuers:** Significant upfront preparation by auditors (including pilot and dry run programs) contributed to a generally smooth experience for issuers. Audit committee chairs and preparers who participated in a dry run considered the experience useful for preparing for their auditor’s implementation of the CAM requirements and understanding what to expect. Issuers generally did not experience significant increases in costs due to CAMs and made minimal changes to their internal procedures because of their auditor’s implementation of the CAM requirements. Several preparers said that they compared planned company disclosures to the auditor’s draft CAMs, although none reported making significant changes to company disclosures because of CAMs communicated in the auditor’s report. In contrast, more than one-third of engagement partners (39%) reported that the issuer made changes to financial statement disclosures or other corporate reporting as a result of CAMs communicated in the auditor’s report.7

- **Communication among Auditors, Audit Committees, and Preparers:** CAMs did not significantly constrain communication among auditors, audit committees, and preparers, and there is some evidence that CAMs marginally enhanced such communication. In some cases, CAMs may have

---

5 The average number of clients is estimated using PCAOB data from public company audits conducted from 2017-2019. The staff will further study the costs of the CAM requirements to firms of different sizes as part of a later post-implementation review.

6 Investors who had not seen CAMs were shown two examples of actual CAMs included in audit reports and were then asked questions about their perceptions of those CAMs and how they were likely to use CAMs in the future.

7 The engagement partner survey did not include a significance threshold regarding the nature of any changes to company disclosures due to CAMs (see Appendix C: Engagement Partner Survey Data Collection Instrument, question 13) which may help to explain this result relative to preparer input. Future staff research, as part of a later post-implementation review, will further explore the impact of CAMs on company disclosures.
contribute to a more in-depth discussion of certain issues, but most stakeholders reported that matters which were identified as CAMs already received significant attention. Many engagement partners (41%) reported that the CAM requirements enhanced communication with the audit committee. CAM-related topics most likely to be discussed with the audit committee were: (1) reasons why some matters were included as CAMs and others were not, (2) the number and type of CAMs for similar issuers, and (3) the impact of CAMs on company disclosures.

II. SCOPE AND ANALYTICAL FRAMEWORK

In this paper, we analyze data collected from various stakeholder groups to help provide 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. We also evaluate whether early evidence from initial implementation of the CAM requirements is suggestive of significant costs, benefits, or unintended consequences.

We collected data for our analysis through the following data collection efforts:

- **Audit Firm and Auditor Surveys**: we conducted voluntary surveys of audit firms and engagement partners to examine the impacts of initial CAM implementation on auditors and the audit process.

- **Investor Survey**: we conducted a survey of investors who (1) research investments for their personal accounts and/or as part of their job, (2) research individual companies, and (3) conduct fundamental or governance analysis of companies to explore their awareness, use, and perceptions of CAMs.

- **Structured Interviews of Audit Committee Chairs and Preparers**: we completed structured interviews with audit committee chairs and financial statement preparers to understand their experiences with initial CAM implementation.

- **Public Request for Comment**: we reviewed responses to a public request for comment soliciting feedback on CAMs.

III. AUDITOR OUTREACH

We conducted a voluntary survey in June 2020 of the eight U.S. audit firms with at least 15 LAF clients to obtain information on the firm-level costs of developing processes and procedures to support implementation of the CAM requirements (e.g., pilot/dry run programs, training, tools, policies, procedures, and quality control processes). The firm-level survey was designed to capture information on the costs of implementing CAMs that are not subsumed in any single audit.

We also fielded a voluntary survey of engagement partners from the same eight audit firms. The survey provided large sample, first-hand, timely, structured data on the experiences of engagement partners in implementing CAMs. The survey was sent to engagement partners who had, within the past year, either served as the audit engagement partner for at least one LAF or served as the audit engagement partner and conducted a CAM dry run for a client that was not a LAF. We received 902 complete responses to our
survey, which included responses from partners of all eight firms. The overall response rate was 57% among engagement partners who have at least one LAF client.

The engagement partner survey asked engagement partners with LAF clients to provide responses regarding the most recently completed audit for which the CAM requirements applied. We collected descriptive statistics from engagement partners who completed the survey about these audit engagements. Overall, the data shows that the characteristics of the engagements that were the subject of our survey are generally consistent with the overall LAF population (see Table 1). Coupled with the high participation rate, this result increases our level of confidence in the overall findings.

**Firm-Level Costs**

Although the overall approach to CAM implementation varied by firm, we identified some common elements across the eight firms. For example:

- Most firms conducted small-scale pilot programs in 2017 or early 2018, producing sample CAMs for a subset of engagements. These early efforts allowed those firms to obtain experience with the CAM requirements and gather initial feedback on tools and guidance the firm developed to support CAM implementation.

- All of the firms conducted dry run programs in 2018 and/or 2019 that included all or most of the firm’s LAF clients. The nature, extent, and timing of dry run programs varied by firm but typically involved determination and drafting of CAMs, internal reviews of CAMs, and presentation and discussion of the CAMs to management and the audit committee for a fiscal year in which CAMs were not required to be communicated in an auditor’s report. The dry run programs provided audit teams an opportunity to understand and apply the CAM requirements in advance of the effective date. The dry runs also provided management and audit committees an opportunity to understand the auditor’s implementation process. Approximately four-fifths of the engagement partners in our sample reported completing a dry run prior to the CAMs effective date.

- All firms developed methodology, guidance, practice aids, and consultation policies. Firms also conducted in-person and online trainings and webinars. Steering committees and networks of CAM subject matter experts and CAM quality reviewers were established to support the implementation process. Most firms implemented internal pre-issuance review processes for first-year CAMs, ensuring that CAMs were reviewed by other senior personnel within the firm and providing tools and consultation protocols for engagement teams implementing the CAM requirements for the first time.

Each of the eight firms reported the number of hours and the external costs associated with firm-level preparations for CAM implementation, as well as the number of hours its personnel spent attending CAM-related trainings (see Table 2). Some firms used specific charge codes to track firm-level hours supporting CAM implementation, while others estimated hours by listing the activities involved and having project personnel estimate the level of effort for each. To estimate the number of hours spent on training, firms generally identified specific courses or portions of courses that focused on CAMs and multiplied the length.

---

8 Data on the total number of engagement partners who audit LAFs is from fiscal year 2018. We also requested survey participation from engagement partners who conducted a dry run for an issuer that is not a LAF, but we cannot calculate a participation rate among those partners due to a lack of data on the total number of engagement partners meeting the criteria.
of the CAM-related content by the number of participants enrolled. Differences in time spent developing processes and procedures to support CAM implementation and training firm personnel between the Big Four firms and the other four firms that participated in our survey likely reflect differences in client portfolios. Big Four firms each have an average of 465 LAF clients and 323 non-LAF clients, and the other four firms that participated in our survey each have an average of 39 LAF clients and 142 non-LAF clients.\(^9\)

On average, data provided by Big Four firms suggests that these firms spent around 23,000 hours developing processes and procedures to support CAM implementation (53% at the partner level) and 14,600 hours for the firm’s personnel to attend CAM-related training (32% at the partner level).\(^10\) To estimate the average cost associated with developing processes and procedures to support CAM implementation and for the firm’s personnel to attend CAM-related training, we multiply average hours by estimated hourly compensation rates. Assuming average annual compensation of $766,000 ($191,000) for a partner (non-partner firm personnel),\(^11\) and 2,600 work hours per year (50 hours per week and 52 weeks per year), the estimated hourly compensation rate of a partner (non-partner firm personnel) is $295 ($74). Using these rates, we estimate that the average cost to each Big Four firm to develop processes and procedures to support CAM implementation is approximately $4.4 million (23,000 × 53% × $295 + 23,000 × 47% × $74), and the average cost to each Big Four firm for personnel to attend CAM-related training is approximately $2.1 million (14,600 × 32% × $295 + 14,600 × 68% × $74).

The other four firms that completed the survey reported an average of 3,700 hours developing processes and procedures to support CAM implementation (41% at the partner level) and 3,100 hours for the firm’s personnel to attend CAM-related training (30% at the partner level).\(^12\) Using the estimated hourly compensation rates described above, we estimate that the average cost to each of these four firms to develop processes and procedures to support CAM implementation is approximately $610,000 (3,700 × 41% × $295 + 3,700 × 59% × $74). We further estimate that the average cost to each of these firms for personnel to attend CAM-related training is $435,000 (3,100 × 30% × $295 + 3,100 × 70% × $74).

**Effects of CAMs on Audit Hours and Audit Procedures**

At the engagement level, engagement partners reported that the engagement team spent an average of 108.9 hours on CAM-related activities for LAF audit engagements,\(^13\) which represents around 1% of total

---

\(^9\) The average number of LAF clients is estimated using data from public company audits conducted from 2017-2019. The staff will further study the costs of the CAM requirements to firms of different sizes as part of a later post-implementation review.

\(^10\) Among Big Four firms, the total number of hours for implementation ranged from around 10,000 to 33,000 and the total number of hours for personnel attending CAM training ranged from 5,000 to 23,000. On average, external costs (i.e., amounts paid to vendors and consultants) related to CAM implementation were approximately $120,000 for Big Four firms.


\(^12\) Among these four firms, the total number of hours for implementation ranged from 1,600 to 5,500, and the total number of hours for attending CAM training ranged from 1,900 to 4,900. On average, external costs related to CAM implementation were approximately $5,000 for these firms.

\(^13\) See Appendix C: Engagement Partner Survey Data Collection Instrument, question 16.
audit hours (see Table 3). About two-thirds of those hours (65%) were incurred before the issuer’s fiscal year end. A majority of the time spent on CAMs was by partners (41%) and managers (50%). For audit engagements involving clients that were not a LAF for which the firm conducted a CAM dry run during the 2019 audit, engagement partners reported very similar levels and timing of effort. Although the number of hours spent on CAM dry runs was lower (60), the percentage of total audit hours spent on the dry run (1%), percentage of CAM dry run hours incurred prior to the issuer’s fiscal year end (70%), and the percentage of CAM dry run hours performed by personnel at the partner (41%) and manager (52%) levels were quite similar.

We also examined how CAM-related hours for audit engagements involving LAFs varied across several key variables, including the number of CAMs communicated in the auditor’s report, issuer size, audit firm size, and engagement partner experience (see Table 4). The number of hours spent on CAMs was higher for audits of large issuers (over $10 billion market capitalization), audits conducted by Big Four firms, audits involving more CAMs, and audits conducted by engagement partners with more experience. However, the percentage of total audit hours spent on CAMs was quite consistent across audit engagements and generally did not vary with the audit characteristics mentioned, suggesting that CAM hours increase in proportion to overall audit hours. Collectively, these results suggest that variation in hours spent on CAMs is more reflective of issuer size and underlying audit complexity than other factors.

As described in the release accompanying the new requirements, some commenters stated that the information communicated in describing CAMs could potentially be used to challenge the procedures performed or the adequacy of audit evidence obtained by the auditor. In general, auditors reported that they did not make changes to the nature, timing, or extent of audit procedures performed due to the requirement to communicate CAMs in the auditor’s report (see Table 5). Only 3% of engagement partners reported making changes to audit procedures due to the CAM communication requirements.

Effects of CAMs on Auditor/Audit Committee Communication

Prior to the adoption of the CAM requirements, some commenters suggested that the required reporting of CAMs would inhibit communication among the auditor and the audit committee because of concerns about what would be publicly communicated in the auditor’s report. Overall, the majority of engagement partners who participated in our survey reported that CAMs did not change the nature of communication with the audit committee (58%; see Table 6). A sizeable minority believed that CAMs enhanced communication with the audit committee (41%), and only a few respondents reported that CAMs impaired communication with the audit committee (less than 2%). Engagement partners reported that the CAM-related topics most likely to be discussed with the audit committee were: (1) reasons why some matters were included as CAMs and others were not, (2) the number and type of CAMs for similar issuers, and (3) the impact of CAMs on company disclosures.

---


15 See id at 91-92.
Effects of CAMs on Company Disclosures and Processes

As described in the release accompanying the new requirements, several commenters stated that CAM communications would give auditors leverage to encourage disclosure of information by management.\(^\text{16}\) While some commenters asserted that this would be beneficial, others claimed it would be an unintended negative consequence of requiring the communication of CAMs.\(^\text{17}\) In our survey data, more than one-third of engagement partners (39%) reported that the issuer made changes to financial statement disclosures or other corporate reporting because of CAM requirements (see Table 5).\(^\text{18}\) Additionally, 2% of engagement partners reported that the issuer made changes to its internal controls over financial reporting because of CAMs.

Other Engagement Partner Comments on CAMs

We provided engagement partners with the opportunity to provide additional feedback on the impact of CAMs through an open-ended question at the end of the survey, and 139 respondents (15%) provided comments. Although most of these respondents (74%) expressed negative views of CAMs, it is possible that engagement partners with a particularly strong opinion were more likely to respond to this question. We identified several common themes in responses to the open-ended question:

- Some engagement partners (67) asserted that the information presented in CAMs provides little value to investors or financial statement users. They posited that much of the information was either already disclosed by the issuer or represented boilerplate language. Some partners (9) went further by saying that CAMs made the audit report more confusing or placed undue attention on CAMs in relation to other aspects of the audit.

- Some engagement partners (19) said that the engagement team felt pressure to identify at least one CAM even though they did not believe that any individual matter fully met the definition of a CAM. Some of these engagement partners (8) expressed concern about being an outlier by reporting zero CAMs.

- Some engagement partners (7) reported that audit committees exhibited a strong preference that their CAMs were similar to others in the same industry. It is possible that these pressures may contribute to standardization of CAM communications.

- Some engagement partners (8) noted that CAM implementation required large amounts of documentation. They mentioned that significant time was required for addressing documentation and drafting issues, which they felt could have been better used on other important audit

\(^{16}\) See id at 93.

\(^{17}\) See id.

\(^{18}\) In the public request for comment, commenters representing preparers asserted that CAMs did not result in significant changes to company disclosures. ERA’s structured interviews with preparers and audit committees (see Section V) generated similar findings. In contrast, a working paper by Burke et al finds evidence using textual analysis that CAMs are associated with significant changes in financial statement footnotes referenced by CAMs. See Burke, Jenna, Rani Hoitash, Udi Hoitash, and Summer Xiao. “An Investigation of Critical Audit Matter Disclosures.” Working paper, June 2020.
activities. Other engagement partners (26) said that the CAM communication process involved significant administrative burdens with many extra costs associated with it.19

IV. INVESTOR SURVEY

We surveyed investors who (1) research investments for their personal accounts and/or as part of their job, (2) research individual companies, and (3) conduct fundamental or governance analysis of companies to gather evidence on investor awareness of CAMs, how investors currently use CAMs, how investors anticipate using CAMs in the future, and overall investor perceptions of CAMs. We received complete responses from 97 investors.

Participants were drawn from (1) email lists of financial professionals and investors maintained by a third-party vendor, and (2) a direct link that was made available to Council of Institutional Investors and CFA Institute members through their mailing lists and online publications. Individuals were invited to take our survey, which contained several screening questions to determine their eligibility. Results reported here are based on a relatively small sample and should not be considered to be representative. The survey fielding period was April 20–May 29, 2020. The characteristics of investors completing our survey are described in Table 7.

CAM Awareness

A majority of the investors who completed the survey had heard of CAMs (63%), although less than a third had seen CAMs in an audit report (31%; see Table 8). When a pilot test of the survey was conducted in October 2019, a much lower percentage of investors (among 50 respondents) had heard of CAMs (22%) or seen CAMs (8%). This suggests that awareness of CAMs increased as more LAFs filed financial statements that included CAM communications.

Current Use of CAMs

Investors who had seen CAMs in audit reports (29) were asked about the topic(s) of the CAMs they had seen, the number of companies for which they had read CAMs, and the ways they had used CAMs (see Table 9). Over half of these 29 investors reported that they had used CAMs to better understand company disclosures (59%) or to better understand the work of the auditor (55%). The most frequent CAM topics which investors reported seeing in audit reports were Revenue Recognition, Goodwill and Other Intangible Assets, Accruals and Reserves, and Business Combinations. These topics are consistent with the most common CAM topics in the PCAOB’s overall CAM dataset (see Table 10).20 Investors who had seen CAMs reported reading CAMs for approximately five companies, on average.

---

19 These responses are in contrast with the broader engagement partner survey data, which suggests that, on average, about 1% of total audit hours were spent on CAMs, with much of this time incurred prior to the issuer’s fiscal year-end.

20 The PCAOB’s CAM dataset is available at http://pcaobus.org/EconomicAndRiskAnalysis/pir/Documents/CAMs.xlsx.
Future Use of CAMs

We asked several survey questions about how investors anticipate using CAMs in the future (see Table 1).21 Investors indicated multiple potential uses. About two-thirds of investors reported that they would likely use CAMs to identify risks associated with a given company (66%). Some investors reported that they would likely use CAMs to focus on key reporting issues or areas (43%) or to better understand company disclosures (39%). Around one-fifth of participants reported that they would likely use CAMs for analyzing or comparing companies to make investment decisions (22%) or assessing the quality of a company’s audit (22%).

CAM Perceptions

We asked several survey questions about investor perceptions of CAMs. Investors who had seen CAMs were asked about their perceptions of the CAMs they had seen. Investors who had not seen CAMs were shown two randomly-chosen representative examples of actual CAMs included in audit reports and then asked questions about their perceptions of those CAMs. Overall, most investors believed that CAMs were tailored to a specific company’s audit (72%) and that CAMs were easy to understand (55%; see Table 1).

The survey also included an open-ended question for 29 investors who reported that they had seen CAMs in an audit report. Investors were asked to share two reasons why they would or would not use CAMs in the future. Out of 21 responses, eight said they would use CAMs in the future, four said they might use CAMs in the future, and nine said they would not use CAMs in the future. Of those who said they would use CAMs, a common theme was that CAMs helped to highlight areas that were particularly subjective or more difficult to audit. Among those who said they would not use CAMs, participants said that CAMs are not specific enough to provide useful information or do not provide additional value above and beyond what is already included in financial statements.

V. INTERVIEWS OF AUDIT COMMITTEE CHAIRS AND FINANCIAL STATEMENT PREPARERS

We conducted interviews with audit committee chairs and financial statement preparers (whose titles included Chief Financial Officer, Chief Accounting Officer, and Controller) of the 12 LAFs with June 30, 2019 year-ends that were selected for 2019 CAM inspection procedures.22 Interviews were designed to provide an understanding of preparer and audit committee chair experiences with CAM implementation by their auditors. We interviewed all 12 audit committee chairs and 10 financial statement preparers associated with the 12 LAFs. We used a structured interview guide to conduct the interviews. All interviews took place from September 2019 through February 2020. Conducting interviews with audit

---

21 Those investors who had not seen CAMs were shown actual CAMs included in audit reports and were then asked questions about their perceptions of those CAMs and how they were likely to use CAMs in the future. Each respondent was shown two CAMs with a common topic. CAMs were selected from a set of five potential topics; within each topic, we used a text analysis algorithm to determine a representative CAM for each of the Big Four audit firms (i.e., the CAM for that firm which is most similar, on average, to the firm’s other CAMs on that topic). Each participant was randomly sorted into one of the five topics and then randomly shown two CAMs from among the four representative CAMs for that topic. The five topics were: Revenue Recognition; Goodwill; Uncertain Tax Positions; Allowance for Loan Losses; and Property, Plant, and Equipment.

22 For more information about these inspections, see Critical Audit Matters Spotlight, available at https://pcaobus.org/Documents/CAMs-Spotlight.pdf.
committee chairs and financial statement preparers allowed us to gain an in-depth understanding of their perspectives and experiences. This was particularly important for exploring potentially more nuanced effects of CAM implementation, such as the effect on communication between audit committees, auditors, and preparers.

Preparing for CAM Implementation

All participants (preparers and audit committee chairs) reported that their auditors began discussions about CAMs in 2017 or 2018. Several participants stated that their first discussions about CAMs consisted of educational conversations, with the auditor sharing information about the new standard. Most participants’ auditors (eight out of the 12 audit engagements) conducted a formal dry run, and the majority of audit committee chairs and preparers who went through a dry run thought that it was useful in preparing for the auditor’s implementation of the CAM requirements and understanding what to expect. For example, one preparer stated, “I actually think the dry run process was very helpful overall because it’s easy to talk about it at the theoretical level, but it was helpful to see how it would be applied.” Some participants expressed that they were initially anxious about CAMs but that the dry run process helped to alleviate their concerns.

Communications with Auditors

Most respondents asserted that the CAM requirements did not substantively change the nature of their discussions with the auditor, although some noted an incremental increase in the level of focus or attention around topics designated as CAMs. For example, one audit committee chair noted, “I don’t know that it increased the frequency of discussions ... but given that [matters determined to be CAMs] were CAMs we probably focused on them a bit more and made it a point to discuss those matters...we just had a heightened discussion of those matters with both management and [the auditor].” None of the participants said that CAMs “chilled” communications or negatively impacted relationships with the auditor. For example, one audit committee chair shared, “From the audit committee’s perspective, it’s a net positive for us due to heightened awareness making sure we’re spending time on appropriate things.”

Audit committee chairs and preparers generally supported the auditor’s determination of which audit matters should be designated as CAMs, and most participants reported giving minimal feedback to the auditors regarding CAM language. For example, one preparer said, “We all felt pretty good about the intended disclosure. They walked us through the rationale of why they picked the topics they did. It was very much in line with what I would have expected.”

Effects of CAMs on Audit and Financial Reporting Quality

Participants generally believed that there was either no change or a slight increase in audit quality because of CAMs. For example, one audit committee chair stated, “To the extent there are issues that are raised in CAMs, it elevates dialogue. So if that’s useful to audit quality, on the margin it’s probably positive.” Similarly, most participants said that CAMs did not impact financial reporting quality, although a few said that CAMs may have marginally enhanced it. Several preparers reported that they compared their planned company disclosures to the auditor’s draft CAMs, but none reported making significant changes to company disclosures because of CAMs. For example, one preparer shared, “It was a natural by-product that we reread the revenue disclosures in light of the CAMs...I just wanted to make sure our financial statements are giving a clear and consistent message.” Preparers said that they did not make changes to their financial reporting processes or controls because of CAMs. None of the interviewees
expressed concerns regarding release of information about the company that had not been made publicly available by the company.

**Perspectives on Investor Use of CAMs**

No participants had received direct investor feedback on CAMs, but some said that CAMs could provide value to investors (e.g., by helping to emphasize significant audit and accounting issues for investors). For example, one preparer said, “My perspective is relatively little incremental cost to the filer (at least to us), and probably from an investor’s perspective, a meaningful improvement. Overall, I look at this as a good trade.” Similarly, one audit committee chair shared, “I would hope that this helps to clarify the really important issues and risks that an organization faces. For the board and for outside investors and those that rely on financial statements, it provides greater clarity.”

**Costs to Issuers**

Although interviewees reported some costs associated with the auditor’s CAMs implementation (e.g., management time, increased audit fees), almost all said that such costs were minimal or immaterial. One preparer said that, for the first time, the auditor involved a specialist in auditing a matter identified as a CAM, and that the issuer was billed for this additional audit work.

**VI. RESPONSES TO PUBLIC REQUEST FOR COMMENT**

The PCAOB issued a public request for comment (RFC) to provide a mechanism for all interested stakeholders to provide information on initial experiences with implementation of the CAM requirements.23 The RFC was published on the PCAOB’s website on April 17, 2020, and the comment letter period closed on June 15. The PCAOB received 23 comment letters from a variety of stakeholder groups, including auditors, investors, financial statement preparers, and academics.24 To analyze the responses, we categorized the comment letters by stakeholder type, organized the content by topic (corresponding to questions presented in the RFC and other topics that arose), and summarized the key points within each topic area.

The input received from commenters was generally consistent with findings from our other outreach and data analysis efforts. Many commenters commended the PCAOB’s efforts to help facilitate a smooth CAM implementation (e.g., through phased implementation and issuance of guidance) and evaluate the impact of the new requirements on stakeholders (e.g., through an interim analysis and later post-implementation review). Overall, the comment letters did not identify any significant unintended consequences from auditors’ initial implementation of the CAM requirements.

Comment letters received from investor associations provided information that reinforced several of the main takeaways from our investor survey. These commenters asserted that CAMs are useful and help

---


24 Eleven letters were from auditors and auditor/accountant associations, five were from academics, three were from investors, three were from preparers and industry associations, and one was from an audit committee chair. Comment letters are available at [https://pcaobus.org/EconomicAndRiskAnalysis/pir/Pages/Comments-Interim-Analysis-AS-3101-Auditors-Report-Audit-Financial-Statements-When-Auditor-Expresses-Unqualified-Opinion.aspx](https://pcaobus.org/EconomicAndRiskAnalysis/pir/Pages/Comments-Interim-Analysis-AS-3101-Auditors-Report-Audit-Financial-Statements-When-Auditor-Expresses-Unqualified-Opinion.aspx).
investors gain a better understanding of the audit process, compare investors’ concerns with difficult issues highlighted by auditors, and develop more informed questions for company management.\(^25\) Investors said that some CAMs were more useful than others, mainly due to variation in the level of detail and specificity included. One of these commenters was concerned that there is not yet widespread awareness of CAMs, particularly among sell-side analysts. Another commenter said that changes as a result of CAM communications will become more evident after a period of years as comparative trends in CAMs are systematically captured and provided to investors, analysts, and other financial statement users. This commenter also expressed that changes would become more pronounced to the extent that auditors include information about the outcome of audit procedures performed and key observations from the auditor’s work regarding the matter.

Comment letters received from auditors provided information about their CAM implementation efforts. Auditors reported that preparations for the CAM requirements were extensive at both the audit firm national office and engagement team levels; however, the CAM requirements did not significantly impact the nature, extent, or timing of audit procedures. One comment letter from a preparer association said that matters identified as CAMs already received significant auditor attention under other audit performance requirements, and one comment letter from an audit firm said that changes to audit procedures generally resulted from changes in the issuer’s business circumstances rather than the CAM requirements.

Commenters agreed that CAMs did not lead to significant changes in communications between auditors, audit committees, and preparers. Many commenters said that matters identified as CAMs represented issues that would already have been the subject of extensive discussion between the auditor, audit committee, and management. Several commenters asserted that there was additional communication to educate management and audit committees about the CAM requirements and planned application of the standard. Some commenters said that in a few cases the audit committee increased its focus on matters identified as CAMs. Commenters generally reported that the frequency of meetings between auditors and the audit committee did not change and confirmed that CAMs were often discussed at these meetings. Some commenters reported additional meetings or communication between the auditor and management, such as additional discussions to review CAM language. None of the commenters reported a reduction or dampening of communication as a result of CAMs.

Commenters generally reported that CAM-related costs for issuers were low.\(^26\) Overall, commenters reported that preparers did not experience significant changes in the financial reporting process as a consequence of CAM communications. Some commenters reported that preparers reviewed company disclosures and made refinements to those disclosures because of CAM communications in the auditor’s report.

Some commenters discussed CAM communications in light of the COVID-19 pandemic. Some of these commenters believed that CAM communications take on increased importance in light of the disruptions and risks caused by COVID-19. Another commenter suggested a one-year deferral to the CAM effective

\(^25\) While comment letters from investor associations were strongly supportive of the CAM requirements, not all respondents to the staff’s investor survey considered CAMs useful. The staff will further study the usefulness of CAMs to investors as part of a later post-implementation review.

\(^26\) Although one comment letter from an audit committee chair reported that there were large implementation costs to the issuer, other comment letters representing preparer associations reported that costs to issuers were not significant. Overall, the feedback regarding costs to issuers supports the conclusion that such costs were minimal.
date for audits of smaller issuers (while allowing for early voluntary adoption) due to pandemic-related disruptions to business.
**APPENDIX A: TABLES**

Table 1: Engagement Characteristics – Engagement Partner Survey

<table>
<thead>
<tr>
<th>Issuer Variables (LAFs only)</th>
<th>Proportion of Respondents</th>
<th>Proportion of All LAFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market cap: (N=839)²⁷</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $2 billion</td>
<td>28.3%</td>
<td>34.6%</td>
</tr>
<tr>
<td>$2 billion to $10 billion</td>
<td>42.1%</td>
<td>39.2%</td>
</tr>
<tr>
<td>More than $10 billion</td>
<td>29.7%</td>
<td>26.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issuer Industry Sector: (N=840)</th>
<th>Proportion of Respondents</th>
<th>Proportion of All LAFs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>2.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>6.7%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5.2%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Energy</td>
<td>7.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Financials</td>
<td>16.0%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Health Care</td>
<td>9.6%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Industrials</td>
<td>13.9%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>13.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Materials</td>
<td>1.6%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Other</td>
<td>14.1%</td>
<td>N/A²⁸</td>
</tr>
</tbody>
</table>

| Audit Engagement Variables       |                           |                       |
| Completed a dry run (N=839)      | 80.1%                     | N/A                   |

| Number of CAMs: (N=838)          |                           |                       |
| 0                               | 0.4%                      | 0.9%                  |
| 1                               | 46.9%                     | 49.2%                 |
| 2                               | 38.5%                     | 34.9%                 |
| 3                               | 11.8%                     | 11.6%                 |
| 4                               | 2.2%                      | 2.8%                  |
| 5 or more                       | 0.2%                      | 0.7%                  |

²⁷ “N” denotes the number of respondents for each question included in the analysis.

²⁸ All LAFs fall under one of the industry sectors listed; however, engagement partners completing the survey may have chosen the “Other” option if they were uncertain about the overall industry category.
Table 2: Firm-Level CAM Implementation Costs

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Average Hours for CAM Implementation</th>
<th>Average Hours for Attending CAM Training</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Big Four</td>
<td>Other Firms</td>
</tr>
<tr>
<td>2017</td>
<td>1,976</td>
<td>143</td>
</tr>
<tr>
<td>2018</td>
<td>9,886</td>
<td>1,403</td>
</tr>
<tr>
<td>2019</td>
<td>9,111</td>
<td>1,738</td>
</tr>
<tr>
<td>Through April 2020</td>
<td>1,997</td>
<td>418</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>22,970</td>
<td>3,700</td>
</tr>
</tbody>
</table>

Percentage of Hours by Personnel Level

<table>
<thead>
<tr>
<th>CAM Implementation Hours</th>
<th>CAM Training Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Big Four</td>
</tr>
<tr>
<td>Partner</td>
<td>52.8%</td>
</tr>
<tr>
<td>Manager</td>
<td>40.5%</td>
</tr>
<tr>
<td>More junior staff</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Table 3: Engagement-Level CAM Effort

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average Amount Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of CAM Requirements for LAF Audits</td>
<td></td>
</tr>
<tr>
<td>Hours spent on CAMs (N=831)</td>
<td>108.9</td>
</tr>
<tr>
<td>Percentage of total audit hours spent on CAMs (N=829)</td>
<td>1.1%</td>
</tr>
<tr>
<td>Percentage of CAM hours incurred before issuer’s fiscal year end (N=827)</td>
<td>65.4%</td>
</tr>
<tr>
<td>Percentage of CAM hours at each level: (N=814)</td>
<td></td>
</tr>
<tr>
<td>Partner</td>
<td>40.7%</td>
</tr>
<tr>
<td>Manager</td>
<td>50.0%</td>
</tr>
<tr>
<td>More junior staff</td>
<td>9.3%</td>
</tr>
<tr>
<td>Preparation for CAM Requirements for Non-LAF Audits</td>
<td></td>
</tr>
<tr>
<td>Hours spent on CAM dry run (N=249)</td>
<td>59.6</td>
</tr>
<tr>
<td>Percentage of total audit hours spent on CAM dry run (N=249)</td>
<td>1.0%</td>
</tr>
<tr>
<td>Percentage of CAM hours incurred before issuer’s fiscal year end (N=248)</td>
<td>70.3%</td>
</tr>
<tr>
<td>Percentage of CAM hours at each level: (N=245)</td>
<td></td>
</tr>
<tr>
<td>Partner</td>
<td>41.0%</td>
</tr>
<tr>
<td>Manager</td>
<td>51.8%</td>
</tr>
<tr>
<td>More junior staff</td>
<td>7.2%</td>
</tr>
</tbody>
</table>
Table 4: Variation in CAM Effort (LAF Audits)

<table>
<thead>
<tr>
<th>Number of CAMs</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours spent on CAMs</td>
<td>58.3 (N=3)</td>
<td>96.0 (N=392)</td>
<td>114.0 (N=319)</td>
<td>139.7 (N=117)</td>
</tr>
<tr>
<td>Percentage of audit hours spent on CAMs</td>
<td>0.8% (N=3)</td>
<td>1.1% (N=391)</td>
<td>1.1% (N=318)</td>
<td>1.1% (N=117)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issuer Market Cap</th>
<th>Small (&lt;$2B)</th>
<th>Medium ($2-10B)</th>
<th>Large (&gt;10B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours spent on CAMs</td>
<td>88.0 (N=234)</td>
<td>101.0 (N=352)</td>
<td>140.3 (N=243)</td>
</tr>
<tr>
<td>Percentage of audit hours spent on CAMs</td>
<td>1.2% (N=234)</td>
<td>1.2% (N=352)</td>
<td>0.9% (N=243)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>Big Four</th>
<th>Other Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours spent on CAMs</td>
<td>112.4 (N=759)</td>
<td>72.2 (N=72)</td>
</tr>
<tr>
<td>Percentage of audit hours spent on CAMs</td>
<td>1.1% (N=727)</td>
<td>1.3% (N=72)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partner Experience</th>
<th>&lt;3 years</th>
<th>3-5 years</th>
<th>6-10 years</th>
<th>11-15 years</th>
<th>16-20 years</th>
<th>20+ years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hours spent on CAMs</td>
<td>93.1 (N=22)</td>
<td>90.8 (N=103)</td>
<td>99.7 (N=183)</td>
<td>101.5 (N=226)</td>
<td>119.9 (N=157)</td>
<td>135.2 (N=133)</td>
</tr>
<tr>
<td>Percentage of audit hours spent on CAMs</td>
<td>1.1% (N=22)</td>
<td>1.2% (N=103)</td>
<td>1.3% (N=183)</td>
<td>1.0% (N=226)</td>
<td>1.1% (N=155)</td>
<td>1.0% (N=133)</td>
</tr>
</tbody>
</table>

Table 5: Effect of CAMs on Audits and Issuers (LAF Audits)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Proportion of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes were made to audit procedures because of the requirement to communicate CAMs (N=837)</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**Effects on issuers: (N=835)**
- CAMs were reviewed by financial statement preparers: 96.4%
- CAMs were reviewed by internal or external legal counsel: 63.0%
- CAMs were reviewed by investor relations: 18.6%
- Issuer made changes to financial statement disclosures or other corporate reporting because of CAM communications: 38.9%
- Issuer made changes to its internal controls over financial reporting because of CAM communications: 2.2%
Table 6: Effect of CAMs on Communications with Audit Committees (LAF Audits)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Proportion of Respondents (N=834)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAMs significantly enhanced communication with the audit committee</td>
<td>2.0%</td>
</tr>
<tr>
<td>CAMs slightly enhanced communication with the audit committee</td>
<td>38.6%</td>
</tr>
<tr>
<td>CAMs had no substantive impact on communication with the audit committee</td>
<td>57.7%</td>
</tr>
<tr>
<td>CAMs slightly impaired communication with audit committee</td>
<td>1.4%</td>
</tr>
<tr>
<td>CAMs significantly impaired communication with audit committee</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Topics discussed with audit committee:
- Reasons why some matters were included as CAMs and others were not      | 97.5%                             |
- The number and type of CAMs for similar issuers                         | 86.7%                             |
- Edits or wording changes to draft CAMs suggested by management or the audit committee | 22.3%                             |
- Impact of CAMs on management disclosures                                | 42.0%                             |
- Impact of CAMs on investor expectations                                  | 21.5%                             |

Table 7: Investor Characteristics – Investor Survey

<table>
<thead>
<tr>
<th>Variable</th>
<th>Proportion of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male (N=91)</td>
<td>89%</td>
</tr>
<tr>
<td>Age: (N=90)</td>
<td></td>
</tr>
<tr>
<td>&lt;35</td>
<td>8%</td>
</tr>
<tr>
<td>35-54</td>
<td>35%</td>
</tr>
<tr>
<td>55+</td>
<td>55%</td>
</tr>
<tr>
<td>10+ Years of investment experience (N=91)</td>
<td>91%</td>
</tr>
</tbody>
</table>

Table 8: Investor Awareness of CAMs

<table>
<thead>
<tr>
<th>Variable</th>
<th>Proportion of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have read financial statements and related disclosures in the past year (N=97)</td>
<td>97%</td>
</tr>
<tr>
<td>Have read an audit report in the past year (N=96)</td>
<td>80%</td>
</tr>
<tr>
<td>Have heard of CAMs (N=97)</td>
<td>63%</td>
</tr>
<tr>
<td>Have seen CAMs (N=97)</td>
<td>31%</td>
</tr>
</tbody>
</table>
Table 9: Current Investor CAM Use (Among Investors Who Have Seen CAMs)

<table>
<thead>
<tr>
<th>Used CAMs to:</th>
<th>Proportion Reporting “Sometimes” or “Often”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyze or compare companies to make investment decisions (N=29)</td>
<td>24%</td>
</tr>
<tr>
<td>Better understand disclosures made by company management (N=29)</td>
<td>59%</td>
</tr>
<tr>
<td>Better understand the work of the auditor, such as the areas where they highlighted auditing issues to company management (N=29)</td>
<td>55%</td>
</tr>
<tr>
<td>Develop questions for earnings calls to discuss with management (analysts only) (N=5)</td>
<td>80%</td>
</tr>
<tr>
<td>Make proxy voting decisions, including ratification of the audit committee’s choice of external auditor (analysts only) (N=5)</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 10: Most Common CAM Topics Reported (Among Investors Who Have Seen CAMs)

<table>
<thead>
<tr>
<th>CAM Topic</th>
<th>Proportion of Respondents (N=29)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Recognition</td>
<td>52%</td>
</tr>
<tr>
<td>Goodwill and Other Intangible Assets</td>
<td>45%</td>
</tr>
<tr>
<td>Accruals and Reserves</td>
<td>41%</td>
</tr>
<tr>
<td>Business Combinations</td>
<td>24%</td>
</tr>
<tr>
<td>Uncertain Tax Positions</td>
<td>17%</td>
</tr>
</tbody>
</table>

Table 11: Future Investor CAM Use

<table>
<thead>
<tr>
<th>Investor Type</th>
<th>Seen CAMs (N=29)</th>
<th>Not seen CAMs (N=63)</th>
<th>Total (N=92)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Would likely use CAMs in the future for:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyzing or comparing companies to make investment decisions</td>
<td>21%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Identifying risks associated with a given company</td>
<td>66%</td>
<td>67%</td>
<td>66%</td>
</tr>
<tr>
<td>Focusing on key reporting issues or areas</td>
<td>31%</td>
<td>49%</td>
<td>43%</td>
</tr>
<tr>
<td>Better understanding disclosures made by company management</td>
<td>38%</td>
<td>40%</td>
<td>39%</td>
</tr>
<tr>
<td>Assessing the quality of a company’s audit</td>
<td>21%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Investor Type</td>
<td>Seen CAMs (N=29)</td>
<td>Not seen CAMs – first CAM (N=65)</td>
<td>Not seen CAMs – second CAM (N=64)</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>------------------</td>
<td>----------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>CAMs were tailored to specific company’s audit²⁹</td>
<td>86%</td>
<td>68%</td>
<td>69%</td>
</tr>
<tr>
<td>CAMs were easy to understand³⁰</td>
<td>66%</td>
<td>46%</td>
<td>59%</td>
</tr>
</tbody>
</table>

²⁹ Proportion of respondents who selected either “Very tailored” or “Somewhat tailored” in response to the question “Think about [the CAMs you have most recently read/the CAM you just read]. How tailored did [they/it] seem to that company’s audit?”

³⁰ Proportion of respondents who selected either “Very easy” or “Somewhat easy” in response to the question “Overall, were those CAMs easy or hard to understand?” or “Think about the CAM you just read. Overall, how easy was it to understand?”
APPENDIX B: AUDIT FIRMSURVEY DATA COLLECTION INSTRUMENT

Audit Firm Questionnaire on CAMs Implementation Costs

Thank you for your participation in this data collection effort. This study is being conducted by staff of the Public Company Accounting Oversight Board (PCAOB). By participating, you will help the PCAOB understand the impact of critical audit matters (CAMs) on auditors. The purpose of the questionnaire is to obtain information on firm-level costs of implementing CAM requirements. The questionnaire will help to inform the PCAOB’s overall evaluation of the impact of the new CAM requirements.

This questionnaire is NOT associated with an audit inspection conducted by PCAOB’s Division of Registration and Inspections. Participation in this study is voluntary. Survey responses will not be reported at the individual or firm level in any publication from this study.

Questionnaire

1. Firm name:

2. Please describe your firm’s approach to preparing for and implementing CAMs requirements for audits of large accelerated filers (LAFs). For the following list of activities, as well as any similar activities not listed, please describe processes that were implemented, the phases of implementation and associated timeframe, and job titles of personnel who were involved.

- Developing and implementing firm-level audit policies, procedures, methodology, tools, guidance, review processes, and other infrastructure directly related to CAMs
- Developing and conducting training
- Designing and conducting pilot and dry-run programs
- Engaging in CAMs-related discussions or consultations with engagement teams
[Open-ended response]

3. Please describe your firm’s approach to preparing for and implementing CAMs requirements on audits of non-LAFs. Please highlight any differences from your approach for audits of LAFs.
[Open-ended response]

4. Please describe how you expect the activities described in your responses to questions 2 and 3 may evolve moving forward.
[Open-ended response]

5. Please provide (1) the total firm-level hours incurred, and (2) external costs for implementing CAMs requirements for each calendar year. If your firm did not specifically track these hours, please provide your best estimate. Please include costs for:
- Developing and implementing firm-level audit policies, procedures, methodology, tools, guidance, review processes, and other infrastructure directly related to CAMs
• Developing and conducting training directly related to CAMs (please exclude time spent by individuals attending the training)
• Designing pilot and dry-run programs
• Conducting pilots or dry runs, if hours were not charged to individual audit engagements
• Engaging in CAMs-related discussions or consultations with engagement teams, if hours were not charged to individual audit engagements

Please do NOT include costs recorded at the individual engagement level (e.g., engagement team hours, national office hours recorded at the engagement level).

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Hours Incurred</th>
<th>Cost (external spend only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Through April 2020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Of the aggregate hours included in your response to question 5, please describe the main activities on which this time was spent.

[Open-ended response]

7. Of the aggregate hours included in your response to question 5, what percent would you estimate, on average, were performed by personnel at the following levels?
   a. Partner [ ___%]
   b. Manager [ ___%]
   c. More junior staff [ ___%]

8. Please provide the total amount of time firm personnel spent attending training on CAMs. If your firm did not specifically track these hours, please provide your best estimate. Please do NOT include costs recorded at the individual engagement level.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Training Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>Through April 2020</td>
<td></td>
</tr>
</tbody>
</table>

9. Of the aggregate training hours included in your response to question 8, what percent would you estimate, on average, were performed by personnel at the following levels?
   a. Partner [ ___%]
   b. Manager [ ___%]
   c. More junior staff [ ___%]

10. Please describe your process for developing any estimates in your responses to questions 5-9.

[Open-ended response]
APPENDIX C: ENGAGEMENT PARTNER SURVEY DATA COLLECTION INSTRUMENT

Section 1: Introduction

Engagement Partner Survey on CAMs Implementation

Welcome, and thank you for your interest.

This study is being conducted by staff of the Public Company Accounting Oversight Board (PCAOB). By participating, you will help the PCAOB understand auditor experiences with critical audit matters (CAMs). The survey will help to inform the PCAOB’s overall evaluation of the impact of the new requirements.

This survey is NOT associated with an audit inspection conducted by the PCAOB’s Division of Registration and Inspections.

Participation in this study is voluntary. You may withdraw at any time. Your survey responses will not be linked to your personal information, and responses will not be reported at the individual or firm level in any publication from this study.

The survey should take no longer than 20 minutes to complete.

[next]

Throughout this survey, if you want to change an answer to a previous question, use the “back” button at the bottom of the page. Do not use your browser’s back button.

Your progress during the survey is saved automatically. If you are unable to finish the survey in one sitting, you can use the link you received in your email to continue.

[next]

Section 2: Engagement Partner Information

1. How many total years of experience do you have as a partner?
   a. Less than 3 years
   b. 3-5 years
   c. 6-10 years
   d. 11-15 years
   e. 16-20 years
   f. More than 20 years

2. [Required] In the past year, for how many issuers did you serve as engagement partner for which CAMs were required to be communicated in the audit report?
   a. 0
   b. 1
   c. 2
   d. 3
3. [Required] In the past year, for how many non-large accelerated filers did you serve as engagement partner for which you conducted a “dry run” of CAMs in preparation for implementation of CAMs requirements? In this instance, “dry run” means that the engagement team drafted and discussed CAMs with the issuer’s audit committee and/or management for a fiscal year in which CAMs were not required to be communicated.
   a. 0
   b. 1
   c. 2
   d. 3
   e. 4 or more

[TERMINATE if Q2=0 and Q3=0]

[If Q2=0 and Q3>0, skip to Q20]

Section 3: Engagement Information

Think back to the most recently completed audit for which you served as engagement partner and CAM requirements applied.

4. Is this the first year that your firm has audited this issuer?
   a. Yes
   b. No

5. Including the most recently completed audit, how many years have you served as engagement partner on this engagement?
   a. 1
   b. 2
   c. 3
   d. 4
   e. 5

6. What is the approximate market capitalization of the issuer as of the issuer’s most recent fiscal year end?
   a. Less than $2 billion
   b. $2 billion to $10 billion
   c. More than $10 billion

7. Which industry sector best describes the issuer? [Industries listed in brackets will appear as mouse over text]
   a. Communication Services [Telecommunication Services, Media & Entertainment]
   b. Consumer Discretionary [Automobiles & Components, Consumer Durables & Apparel, Consumer Services, Retailing]
   c. Consumer Staples [Food & Staples Retailing, Food, Beverage & Tobacco, Household & Personal Products]
   d. Energy [Energy]
   e. Financials [Banks, Diversified Financials, Insurance]
8. How many CAMs were communicated in the audit report for this issuer?
   a. 0
   b. 1
   c. 2
   d. 3
   e. 4
   f. 5 or more

9. Did the engagement team complete a CAMs “dry run” before the new requirements took effect?
   In this instance, “dry run” means that the engagement team drafted and discussed CAMs with the
   issuer’s audit committee and/or management for a fiscal year preceding the year in which CAMs
   were required to be communicated.
   a. Yes
   b. No
   c. I don’t know

Section 4: Audit Procedures

Please continue to think back to the most recently completed audit for which you served as
engagement partner and CAM requirements applied.

10. For matters identified as CAMs, were there changes in the nature, timing, or extent of audit
    procedures performed compared to prior year audits?
    a. Yes
    b. No
    c. I don’t know

11. [If 10= a] What was the reason for the change in the nature, timing, or extent of audit procedures
    performed? (Select all that apply)
    a. Procedures changed due to the requirement to communicate CAMs
    b. Procedures changed due to changes in the engagement team’s identification and
       assessment of risks of material misstatement
    c. Procedures changed due to changes in the issuer’s business
    d. Procedures changed due to new accounting requirements
    e. Procedures changed due to changes in your firm’s policies or practices
    f. Procedures changed for some other reason (Please specify: ___________

12. When in the audit process did you first write a draft of CAMs that were communicated in the audit
    report?
    a. 3 or more months before the issuer’s fiscal year end

f. Health Care [Healthcare Equipment & Services, Pharmaceuticals, Biotechnology & Life
   Sciences]

g. Industrials [Capital Goods, Commercial & Professional Services, Transportation]

h. Information Technology [Software & Services, Technology Hardware & Equipment,
   Semiconductors & Semiconductor Equipment]

i. Materials [Materials]

j. Real Estate [Real Estate]

k. Utilities [Utilities]

l. Other
b. 1-3 months before the issuer’s fiscal year end

c. 0-1 month before the issuer’s fiscal year end

d. After the issuer’s fiscal year-end

e. Not applicable; no CAMs were communicated

13. Based on your interactions with the issuer, which of the following occurred? (Select all that apply)

a. CAMs were reviewed by financial statement preparers

b. CAMs were reviewed by internal or external legal counsel

c. CAMs were reviewed by investor relations

d. Issuer made changes to financial statement disclosures or other corporate reporting because of CAM communications

e. Issuer made changes to its internal controls over financial reporting because of CAM communications

f. None of the above [selecting this option clears all others]

Section 5: Communication

The following questions focus on your interactions with the audit committee for the most recently completed audit for which you served as engagement partner and CAM requirements applied.

14. Which of the following CAM-related topics did you discuss with the audit committee? (Select all that apply)

a. Reasons why some matters were included as CAMs and others were not

b. The number and type of CAMs for similar issuers

c. Edits or wording changes to draft CAMs suggested by management or the audit committee

d. Impact of CAMs on management disclosures

e. Impact of CAMs on investor expectations

f. None of the above

15. In your opinion, how did the communication of CAMs change the nature of discussion with the audit committee?

a. Significantly enhanced communication with the audit committee

b. Slightly enhanced communication with the audit committee

c. Had no substantive impact on communication with the audit committee

d. Slightly impaired communication with the audit committee

e. Significantly impaired communication with the audit committee

Section 6: Costs

Please continue to think back to the most recently completed audit for which you served as engagement partner and CAM requirements applied.

16. How many hours do you estimate the engagement team spent specifically on CAMs? Please include time spent identifying, drafting, and reviewing CAMs, preparing documentation related to the determination of whether a matter is a CAM, drafting of communications related to CAMs, and engaging in CAM-related discussions with national office resources, management, and the audit committee. Please also include time spent that was charged to the engagement, even if
work was performed by national office staff. Please exclude time spent participating in CAM training and time spent on dry runs.

a. 50 or fewer hours  
b. 51-100 hours  
c. 101-150 hours  
d. 151-200 hours  
e. 201-400 hours  
f. More than 400 hours

17. What percentage of total audit hours would you estimate were spent on CAMs?

a. Less than 1%  
b. 1-2%  
c. 2-3%  
d. More than 3%

18. What percent of the work hours specifically associated with CAMs would you estimate were performed by personnel at the following levels? Please include engagement team and national office personnel at each level.

d. Partners [___%]  
e. Managers [___%]  
f. More junior staff [___%] [all answers must add up to 100%]

19. Of the work hours specifically associated with CAMs, what percent would you estimate were performed prior to the issuer’s fiscal year end?

a. 0-20%  
b. 20-40%  
c. 40-60%  
d. 60-80%  
e. 80-100%

Section 7: Non-LAF CAMs Dry Runs

[Show if Q3 > 0]

[If Q2 > 0 and Q3 > 0]

Thank you for answering our questions about the most recently completed audit for which you served as engagement partner and CAM requirements applied. Now, we have a few questions for you about recently completed audits for which CAMs requirements have not yet taken effect.

[If Q2 = 0 and Q3 > 0]

For the following questions, please think back to the most recently completed audit for which you served as engagement partner and conducted a dry run of CAM requirements.

20. How many hours do you estimate the engagement team spent specifically on the CAMs dry run? Please include in this estimate time spent identifying, drafting, and reviewing CAMs, preparing documentation related to the determination of whether a matter is a CAM, drafting of communications related to CAMs, and engaging in CAM-related discussions with national office resources, management, and the audit committee. Please also include time spent that was
charged to the engagement, even if work was performed by national office staff. Please exclude time spent participating in CAM training.

21. What percentage of total audit hours would you estimate were spent on the CAMs dry run?
   a. Less than 1%
   b. 1-2%
   c. 2-3%
   d. More than 3%

22. What percent of the work hours specifically associated with the CAMs dry run would you estimate were performed by personnel at the following levels? Please include engagement team as well as national office personnel.
   a. Partners [ ___%]
   b. Managers [ ___%]
   c. More junior staff [ ___%] [all answers must add up to 100%]

23. Of the work hours specifically associated with the CAM dry run, what percent would you estimate were performed prior to the issuer’s fiscal year end?
   a. 0-20%
   b. 20-40%
   c. 40-60%
   d. 60-80%
   e. 80-100%

24. Did you bill the issuer for the dry run?
   a. Yes
   b. No

25. [If Q24 is “yes”] Please enter the amount billed:

   [open text box]

Section 8: Concluding questions

26. Is there anything else you would like to share with us about the impact of CAMs?

   [open text box]

Your responses have been submitted. Thank you for your participation in the PCAOB’s Engagement Partner Survey on CAMs Implementation
APPENDIX D: INVESTOR SURVEY DATA COLLECTION INSTRUMENT

Module A: Introduction

Survey on Investing and Auditing

Welcome, and thank you for your interest.

This study is being conducted by staff of the Public Company Accounting Oversight Board (PCAOB), a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest. PCAOB staff have asked NORC at the University of Chicago, our independent research contractor, to help conduct this research. By participating, you will help the PCAOB understand the views of investors, which will help us as we aim to provide useful information to the market.

Participation in this study is voluntary. You may withdraw at any time. We will use reasonable efforts to protect your personal information, and you will not be individually identified in any publication from this study. However, we will analyze your responses for research purposes. The Institutional Review Board (IRB) of NORC at the University of Chicago has approved this study.

Throughout this survey, if you want to change an answer to a previous question, use the “back” button at the bottom of the page. Do not use your browser’s back button.

Your progress during the survey is saved automatically. If you are unable to finish the survey in one sitting, you can use the link from [EMAIL] in your email to continue.

Module B: Eligibility screening

First, we have a few questions about you.

1. Thinking about your potential investment research, select the statement that best reflects what you do. Please select all that apply. [Note: response required]
   ___ I do not research investments [1]
   ___ I research investments only for my personal investment accounts [2]
   ___ I research investments only for clients/my job (e.g., as an advisor, analyst, portfolio manager, etc.) [3]
   ___ I research investments both for my own personal accounts and for clients/my job [4]
   ___ Something else (please specify): [open-text box] [5]
   ___ I don’t know [6]

2. [If Q1 = 3 or 4] Are you professionally employed as a financial analyst?
   ___ Yes [1]
3. [If Q2 = 1] Do you work for a buy-side firm, sell-side firm, or neither?
   ____ Buy side [1]
   ____ Sell side [2]
   ____ Neither [3]

After these three questions, create embedded variables to distinguish between retail vs. professional investors, analysts vs. non-analysts, and sell-side vs. buy-side, following the logic below.

- Professional = 1 if Q1 = 3 or 4. Professional = 0 otherwise.
- Analyst = 1 if Q2 = 1. Analyst = 0 otherwise. If a respondent skipped question 2, assume that they are not an analyst.
- Buy-side = 1 if Q3 = 1. Buy-side = 0 otherwise. If a respondent skipped question 3, assign them to 0.
- Sell-side = 1 if Q3 = 2. Sell-side = 0 otherwise. If a respondent skipped question 3, assign them to 0.

[Display If Q1 = 4] For the remainder of this survey, please think only about your professional research and investment decisions when providing answers to questions (not your personal investments).

After this question, skip forward to Q7 (ineligible) if 1 is not selected.

4. Think about all of the potential investments you may research in the next six months. Will you research specific companies? [Note: response required]
   ____ Yes, I will research specific companies [1]
   ____ No, I will not research specific companies [2]
   ____ I will not research investments in the next six months [3]
   ____ I don’t know [4]

After this question, skip forward to Q7 (ineligible) if 1 or 3 are not selected.

5. How would you characterize the type of research you perform to analyze companies or make investment decisions? Please select all that apply. [Note: response required]
   ____ I examine the financial performance of companies through profitability, leverage, liquidity, operating efficiency, etc. (commonly known as “fundamental analysis”) [1]
   ____ I examine patterns of price movement, trading volume, and other trading signals of companies (commonly known as “technical analysis”) [2]
   ____ I examine companies’ governance, ESG and/or other issues as outlined in my firm’s proxy voting or investment stewardship guidelines [3]
   ____ I don’t examine specific companies or stocks [4] [note: selecting this value should clear selections above]
   ____ None of the above [5] [note: selecting this value should clear selections above]

6. Please indicate whether you have read each of the following in the past year.
The following question is only displayed to participants who were determined to be ineligible.

7. Thank you for your interest in participating in this study. Unfortunately, you are not eligible for our study at this time.

However, we may be interested in contacting you with additional opportunities to participate in research, or to receive materials that may be interesting to you. If you are willing to be contacted, please provide your contact information below and indicate which opportunities interest you. Such participation is completely voluntary.

Name: [open text box]
Email address: [open text box, email logic]

I am interested in: (select all that apply)
- Answering follow-up questions regarding this survey
- Participating in other research (such as interviews or surveys)
- Receiving educational materials or other investor-oriented communications
- Other, please specify: [open-text box]

[End of survey for participants who are ineligible]

Module C: Background/Professional Use

1. When performing investment research, in which area(s) do you tend to focus? Please select all that apply.
   - Companies [1]
   - Industries (including sectors or subgroups of industries) [2]
   - Neither [3]

2. [If professional = 0] Approximately how many stocks do you follow?
   - 0 [1]
   - 1-2 [2]
   - 3-4 [3]
   - 5 or more [4]

3. [If Q2 = 2, 3, or 4] Please list the company name or ticker symbols of (up to) five companies that you follow most closely.
   - [open-text box 1]
4. [If Q1 = 2] Which industries or sectors do you follow most closely? Please select all that apply.
   - Automobiles & Components
   - Banks
   - Capital Goods
   - Commercial & Professional Services
   - Consumer Durables & Apparel
   - Consumer Services
   - Diversified Financials
   - Energy
   - Food & Staples Retailing
   - Food, Beverage, & Tobacco
   - Health Care Equipment & Services
   - Household & Personal Products
   - Insurance
   - Materials
   - Media & Entertainment
   - Pharmaceuticals, Biotechnology & Life Sciences
   - Real Estate
   - Retailing
   - Semiconductors & Semiconductor Equipment
   - Software & Services
   - Technology Hardware & Equipment
   - Telecommunication Services
   - Transportation
   - Utilities
   - Something else (please specify): [open-text box]

Module D: Effects of Critical Audit Matters (CAMs) and perceptions of CAMs among users

Our next set of questions deals with “critical audit matter” requirements. These requirements are also called CAMs.

A CAM is a matter arising from the audit of the financial statements that was communicated, or required to be communicated, by an auditor to an audit committee that:
   1. relates to accounts or disclosure that are material to the financial statements; and
   2. involves especially challenging, subjective, or complex auditor judgment.

The requirements related to CAMs became effective for fiscal years ending on or after June 30, 2019, for large accelerated filers.

A. Before starting this survey, had you heard about CAM requirements?
**Stakeholder Outreach on the Initial Implementation of CAM Requirements**

---

___ Yes [1]
___ No [2]
___ I’m not sure [3]

**B. Have you seen any CAMs in auditor reports? [Note: response required]**

___ Yes [1]
___ No [2]
___ I’m not sure [3]

1. **[If QB = 1] For approximately how many companies have you read CAMs? [Note: response required]**

   ___ 0
   ___ 1
   ___ 2-5
   ___ 6-10
   ___ 11 or more

   If QB = 2 or 3 or if Q1=0, skip to section E. If they have read 1 or more, continue with section D.

2. **[If Q1 = 1] For which company did you read CAMs? Please enter the ticker or name of the company below. [open-text box]**

3. **[If Q1 > 1] Think about the companies for which you have read CAMs. For which company did you most recently read CAMs? Please enter the ticker or name of the company below. [open-text box]**

4. **What were the topics of the CAMs that you read for that company? Please select all that apply.**

   ___ Revenue Recognition
   ___ Goodwill and Other Intangible Assets
   ___ Business Combinations
   ___ Accruals and Reserves
   ___ Allowance for Loan Losses
   ___ Property, Plant, and Equipment
   ___ Other Liabilities
   ___ Uncertain Tax Positions
   ___ Commitments and Contingencies
   ___ Real Estate
   ___ Other Assets and Deferred Costs
   ___ Deferred Income Taxes
   ___ Other, please specify: [open-text box]
   ___ I don’t remember

5. **Overall, were those CAMs easy or hard to understand?**

   ___ Very easy
   ___ Somewhat easy
   ___ Neither easy nor difficult
   ___ Somewhat difficult
Very difficult
I don’t remember

6. Think about the CAMs you have most recently read. How tailored did they seem to that company’s audit?
   Very tailored
   Somewhat tailored
   Neither tailored nor generic
   Somewhat generic
   Very generic

Next, we will ask you about some ways that you may have used CAMs.

[If Q1 > 1] Please think about all of the critical audit matters you have seen when answering the next questions.

7. How often have you used CAMs to analyze or compare companies to make investment decisions?
   Often
   Sometimes
   Rarely
   Never
   I don’t know

8. How often have you used CAMs to help you better understand disclosures made by company management (e.g., in MD&A)?
   Often
   Sometimes
   Rarely
   Never
   I don’t know

9. [If analyst = 1] How often have you used CAMs for developing questions for earnings calls to discuss with management?
   Often
   Sometimes
   Rarely
   Never
   I don’t know

10. [If sell-side = 1] How often have you used CAMs for writing analyst reports?
    Often
    Sometimes
    Rarely
    Never
    I don’t know
11. [If buy-side = 1] How often have you used CAMs for writing internal recommendations?
   ___ Often
   ___ Sometimes
   ___ Rarely
   ___ Never
   ___ I don’t know

12. [If analyst = 1] How often have you used CAMs for making proxy voting decisions, including ratification of the audit committee’s choice of external auditor?
   ___ Often
   ___ Sometimes
   ___ Rarely
   ___ Never
   ___ I don’t know
   ___ Not applicable

13. How often have you used CAMs to better understand the work of the auditor, such as the areas where they highlighted auditing issues to company management?
   ___ Often
   ___ Sometimes
   ___ Rarely
   ___ Never
   ___ I don’t know

14. To what extent has auditor communication of CAMs helped you focus on key reporting issues or areas (either before reading other parts of the annual report, or afterwards)?
   ___ Not at all
   ___ A little
   ___ A moderate amount
   ___ A lot
   ___ A great deal
   ___ I don’t know

15. To what extent has auditor communication of CAMs made you more confident about the quality (e.g., transparency, accuracy) of a company’s financial statements?
   ___ Not at all
   ___ A little
   ___ A moderate amount
   ___ A lot
   ___ A great deal
   ___ I don’t know

16. In your opinion, to what extent has auditor communication of CAMs repeated information provided by management (i.e., did not provide new information)?
   ___ Not at all
   ___ A little
   ___ A moderate amount
   ___ A lot
   ___ A great deal
17. [If Q1 > 1] Overall, has reading CAMs helped inform the way you perceive different audit firms or audit partners (the individuals who sign the audit opinion)? Please select all that apply.
   ___ Yes, they can make some audit firms look better than others
   ___ Yes, they can make some audit partners look better than others
   ___ No, they do not help me see any differences [note: selecting this option should clear selections above]
   ___ I don’t know

18. Overall, did you think that auditors provided the right number of CAMs?
   ___ No, not enough CAMs
   ___ Yes, about the right number
   ___ No, too many CAMs
   ___ I don’t know what the right number would be

Finally, we would like to ask you how you might use CAMs in the future.

19. Which of the following activities would you be likely to use CAMs for in the future? Please select all that apply

<table>
<thead>
<tr>
<th>Activity</th>
<th>Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyzing or comparing companies to make investment decisions</td>
<td>o</td>
</tr>
<tr>
<td>Identifying risks associated with a given company</td>
<td>o</td>
</tr>
<tr>
<td>Focusing on key reporting issues or areas</td>
<td>o</td>
</tr>
<tr>
<td>Better understanding disclosures made by company management</td>
<td>o</td>
</tr>
<tr>
<td>Assessing the quality of a company’s audit</td>
<td>o</td>
</tr>
<tr>
<td>None of the above [note: selecting this value should clear selections above]</td>
<td>o</td>
</tr>
</tbody>
</table>

20. [If analyst = 1] Which of the following activities would you be likely to use CAMs for in the future? Please select all that apply

<table>
<thead>
<tr>
<th>Activity</th>
<th>Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing questions for earnings calls to discuss with management</td>
<td>o</td>
</tr>
<tr>
<td>Writing analyst reports [show only if sell-side=1]</td>
<td>o</td>
</tr>
<tr>
<td>Writing internal recommendations [show only if buy-side=1]</td>
<td>o</td>
</tr>
<tr>
<td>Making proxy voting decisions (i.e. ratifying audit committee's choice of external auditor)</td>
<td>o</td>
</tr>
<tr>
<td>None of the above [note: selecting this value should clear selections above]</td>
<td>o</td>
</tr>
</tbody>
</table>

21. Think again about using CAMs in the future. In a few words, please give us two reasons why you would, or would not, use CAMs in the future.
   [open-text box]
Module E: Experiment on CAM attributes

This section will appear only for respondents who report that they have not seen CAMs.

Next we will show you two examples of critical audit matters. Please read the first example and answer the questions below.

[CAM 1]

1. Which reporting issue was identified as the Critical Audit Matter in the example you just read?
   - Revenue Recognition
   - Goodwill
   - Uncertain Tax Positions
   - Allowance for Loan Losses
   - Property, Plant, and Equipment
   - None of the above

2. Think about the CAM you just read. Overall, how tailored did it seem to that company’s audit?
   - Very tailored
   - Somewhat tailored
   - Neither tailored nor generic
   - Somewhat generic
   - Very generic

3. Think about the CAM you just read. Overall, how easy was it to understand?
   - Very easy
   - Somewhat easy
   - Neither easy nor difficult
   - Somewhat difficult
   - Very difficult

4. If you were to read a CAM like this one BEFORE reading the company’s disclosures in its annual report, how useful do you think it would be?
   - Very useful
   - Somewhat useful
   - Neither useful nor useless
   - Somewhat useless
   - Very useless

5. If you were to read a CAM like this one AFTER reading the company’s disclosures in its annual report, how useful do you think it would be?
   - Very useful
   - Somewhat useful
   - Neither useful nor useless
   - Somewhat useless
   - Very useless
Below is another example of a CAM. After reading it, please answer the questions below.

[CAM 2]

6. Which reporting issue was identified as the Critical Audit Matter in the example you just read?
   ___ Revenue Recognition
   ___ Goodwill
   ___ Uncertain Tax Positions
   ___ Allowance for Loan Losses
   ___ Property, Plant, and Equipment
   ___ None of the above

7. Think about the CAM you just read. Overall, how tailored did it seem to that company’s audit?
   ___ Very tailored
   ___ Somewhat tailored
   ___ Neither tailored nor generic
   ___ Somewhat generic
   ___ Very generic

8. Think about the CAM you just read. Overall, how easy was it to understand?
   ___ Very easy
   ___ Somewhat easy
   ___ Neither easy nor difficult
   ___ Somewhat difficult
   ___ Very difficult

9. If you were to read a CAM like this one BEFORE reading the company’s annual report, how useful do you think it would be?
   ___ Very useful
   ___ Somewhat useful
   ___ Neither useful nor useless
   ___ Somewhat useless
   ___ Very useless

10. If you were to read a CAM like this one AFTER reading the company's annual report, how useful do you think it would be?
    ___ Very useful
    ___ Somewhat useful
    ___ Neither useful nor useless
    ___ Somewhat useless
    ___ Very useless

11. Overall, which of the two CAMs did you find better (e.g. more helpful, useful, or informative)?
    ___ Example 1 was much better
___ Example 1 was somewhat better
___ They were about the same
___ Example 2 was somewhat better
___ Example 2 was much better

[next]

Now that you have seen two CAMs, we would like to ask you how CAMs might affect you in the future.

12. Will auditor communication of CAMs make you more confident about the quality (e.g., transparency, accuracy) of a company’s financial statements?
   ___ Not at all
   ___ A little
   ___ A moderate amount
   ___ A lot
   ___ A great deal
   ___ I don’t know

13. To what extent will auditor communication of CAMs help you focus on key reporting issues or areas (either before reading other parts of the annual report, or afterwards)?
   ___ Not at all
   ___ A little
   ___ A moderate amount
   ___ A lot
   ___ A great deal
   ___ I don’t know

14. In your opinion, in which ways will CAMs influence how you perceive the information in a company’s financial statement? Please select all that apply.
   ___ I will be more confident in the quality of information
   ___ I will better understand the auditor’s thinking and approach regarding the areas identified as CAMs
   ___ I will use CAMs to better understand disclosures made by company management (e.g. in financial statements footnotes)
   ___ CAMs won’t influence how I see information in annual reports
   ___ Something else (please specify): [open text box]
   ___ I don’t know

15. Which of the following activities would you be likely to use CAMs for in the future? Please select all that apply

   Analyzing or comparing companies to make investment decisions
   o
   Identifying risks associated with a given company
   o
   Focusing on key reporting issues or areas
   o
   Better understanding disclosures made by company management
   o
16. Which of the following activities would you be \textbf{likely to use} CAMs for in the future? Please select all that apply

- Developing questions for earnings calls to discuss with management
- Writing analyst reports \[\text{show only if sell-side=1}\]
- Writing internal recommendations \[\text{show only if buy-side=1}\]
- Making proxy voting decisions (i.e. ratifying audit committee’s choice of external auditor)
- None of the above

**Module G: Demographics and wrap up**

Finally, we have some questions about you.

1. What is your gender?
   ___ Male
   ___ Female

2. What is your age, in years?
   ___ 18-24
   ___ 25-34
   ___ 35-44
   ___ 45-54
   ___ 55-64
   ___ 65+

3. In what country do you reside?
   ___ United States
   ___ Canada
   ___ Somewhere else (please specify): [open-text box]

4. [If professional = 1] How many years of financial analysis experience do you have?
   ___ 0-2
   ___ 3-5
   ___ 6-9
   ___ 10 or more

5. [If professional = 0] How many years of investment experience do you have?
   ___ 0-2
   ___ 3-5
   ___ 6-9
   ___ 10 or more
6. [If professional = 1] Which of the following best describes your professional activities? (Mark all that apply)
   — Asset management
   — Commercial banking
   — Investment banking
   — Investment advisory services
   — Credit rating analysis
   — Other financial services
   — Something else (please specify): [open-text box]

7. [If buy-side = 1] What is the approximate value of your firm’s assets under management?
   — Under $500 million
   — $500 million - $1 billion
   — $1-100 billion
   — $100-500 billion
   — $500-999 billion
   — $1 trillion or more

8. Do you analyze or invest in non-US companies?
   — Yes [1]
   — No [2]
   — I don’t know [3]

9. [If Q8 = 1] Key Audit Matters are “those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.”
   Key audit matters are available in auditor’s reports in many countries, such as the UK and the Netherlands. Had you heard about “Key Audit Matters” before this survey?
   — Yes
   — No
   — I don’t know

10. Do you have professional experience as an accountant?
    — Yes
    — No

11. Are you involved in the preparation of financial statements for a public company?
    — Yes
    — No

12. Are you a member of an audit committee of a public company?
    — Yes
    — No

[next]
Module H: PCAOB Email Lists

1. Before taking this survey, had you heard of the PCAOB?
   ___ Yes
   ___ No
   ___ I don’t know

2. The PCAOB strives to provide information via investor outreach and education that investors would find helpful. What types of information would be helpful for you to receive from the PCAOB? Please select all that apply.
   ___ Educational materials about the audit industry
   ___ Current events and trends in the audit industry
   ___ Information about the quality of audit services
   ___ Other, please describe: [open text box]
   ___ None of these

3. Thank you again for your participation in this study. We may be interested in contacting you again with additional opportunities to participate in research, or to receive materials that may be interesting to you. If you are willing to be contacted, please leave your contact information below and indicate which opportunities interest you. Such participation is completely voluntary.
   Name: [open text box]
   Email address: [open text box, email logic]

   I am interested in: (Select all that apply)

   ___ Answering follow-up questions regarding this survey
   ___ Participating in other research (such as interviews or surveys)
   ___ Receiving educational materials or other investor-oriented communications
   ___ Other, please specify: [open-text box]

4. Thank you again for your participation in this study. If you have any further comments, or if there is anything else that you would like us to know, please feel free to provide your thoughts below (optional).
   [open text box]

[End of survey]
APPENDIX E: AUDIT COMMITTEE CHAIR AND FINANCIAL STATEMENT PREPARER INTERVIEW GUIDES

Audit Committee Chair Interview Protocol

1. **IF DRY RUN:**
   I understand from our inspection team that [AUDITOR] performed what people commonly refer to as a “CAMs dry-run” the year prior to implementation.
   a. Do you recall discussions with your auditor on CAMs as part of that dry-run process and, if so, can you describe for me the nature of those discussions?
   b. [IF YES:] Overall, in your role as an audit committee chair, what was your perspective on how the dry run or pilot process went?

**IF NO DRY RUN:**
Do you recall any preparatory activities [AUDITOR] performed at [ISSUER] to get ready for CAMs?
   a. IF NEEDED: What were the nature of those activities?
   b. Overall, how did the process go?

2. Now I’d like to turn the conversation to your most recent audit for the year-ended June 30, 2019.
   a. Could you describe for me the interactions you had with [AUDITOR] around CAMs?
   b. IF NEEDED: When did you first discuss CAMs with your auditor?
   c. IF NEEDED: What would be your best estimate of how many discussions you had with your auditor about CAMs?

3. Did audit committee meetings change as a result of CAMs? If so, how?
   a. IF NEEDED: Are they getting longer or more frequent?
   b. IF NEEDED: Has the nature of communication with the auditor changed in any way?
   c. IF NEEDED: Do audit committee members ask more or different types of questions in audit committee meetings?
   d. IF NEEDED: Would you say communication is more open, or more closed?
      i. In what ways?
   e. IF NEEDED: For CAM versus non-CAM topics, has the nature or depth of discussion (or the level of attention) changed in any way?
   f. IF NEEDED: Have you had any additional conversations with your engagement partner on CAMs outside of formal audit committee meetings?
      i. What was the nature of those discussions?
   g. IF NEEDED: Has the nature of your communication with the auditor changed in any other ways that we’ve not covered?
   h. IF NEEDED: How – if at all – would you say the communication of CAMs affected your working relationship with your auditor?

4. For your most recent audit, were there any changes between the first draft CAMs that you saw and the CAMs that ultimately appeared in the final audit report (REFER TO ISSUER’S ACTUAL CAM TOPICS)?
a. Did you give any feedback to the auditor about the CAMs that they planned to communicate in the audit report?
   i. IF APPLICABLE: Did that feedback affect how the auditor ultimately communicated CAMs in the audit report? And if so, how?

5. Moving on, we’ve talked about your interactions with your auditor. Did CAMs have any effect on the audit committee’s relationship or interactions with management? If so, what were they?
   a. IF NEEDED: Is there more frequent communication or less frequent communication?
   b. IF NEEDED: Has the nature of communication with management changed in any way?
   c. Has the communication of CAMs resulted in conversations with management about potential changes to related financial statement disclosures and, if so, could you describe the nature of those conversations for me?

6. Taking into account everything you’ve just told me, do you think auditor communication of CAMs has affected in any other ways how you as an audit committee chair approach your role?

7. Now I’d like to move on to costs related to CAMs. Overall, for [ISSUER NAME] what would you say the main costs related to CAMs are?
   a. IF NEEDED: did you experience a change in audit fees because of CAMs?
   b. IF APPLICABLE: Did the auditor bill additional fees for the dry run process in the year prior to CAM implementation?
   c. Do you expect there will be any changes in fees as a result of CAM communications in future years?
   d. Other than audit fees, are you aware of any other costs (either internal or external) that [ISSUER NAME] may have incurred due to CAMs?
      i. PROMPT: For example are you aware of any changes to internal management processes because of CAMs? [e.g., Additional reviews by management or general counsel? Additional discussions with investor relations in preparation for discussions with investors?]
      ii. Would you expect those costs to be one-time or more recurring in nature?
   e. Prompt: What about external processes? For example are you aware of any conversations with external counsel related to CAMs?
      i. Would you expect those costs to be one-time or more recurring in nature?

8. Finally, I’d like to wrap up by asking for your perspectives on audit and financial reporting quality. In particular, now that CAMs are required to be communicated, how do you think audit quality has or will change?
   a. IF mainly positive responses: Have there been any negative effects on the quality of your audit?
   b. IF mainly negative responses: Have there been any positive effects on the quality of your audit?

9. How about changes in financial reporting quality?
   a. Have CAMs resulted in any changes to financial disclosures?
   b. IF NEEDED: What sort of changes?
10. Thank you for your time, is there anything else you’d like to discuss with us?

Financial Statement Preparer Interview Protocol

1. IF DRY RUN:
   I understand from our inspection team that [AUDITOR] performed what people commonly refer to as a “CAMs dry-run” the year prior to implementation.
   a. Thinking back to that dry run process, could you describe how [AUDITOR] involved you and the management team in the process?
      i. IF NEEDED: Who met with the auditors as part of the dry run process?
   b. What CAM topics were identified through the dry run?
   c. Overall, what were your perspectives on how the dry run process went? Did you find it useful?
   d. Did the dry run process result in any changes in management processes?

IF NO DRY RUN:
Do you recall any preparatory activities [AUDITOR] performed at [ISSUER] to get ready for CAMs?
   a. IF NEEDED: What were the nature of those activities?
   b. Overall, how did the process go?
   c. IF NEEDED: Who from the management team was involved in the preparations?
   d. Did the preparatory work on CAMs result in any changes to management processes?

2. Now I’d like to turn the conversation to your most recent audit for the year-ended June 30, 2019.
   a. Could you describe for me the interactions you had with [AUDITOR] around CAMs?
   b. IF NEEDED: Could you describe how the auditor involved you and the management team in the process?
   c. IF NEEDED: When did [AUDITOR] first share the draft CAMs with you?
   d. IF NEEDED: Who met with the auditors as part of the CAM development process?
   e. IF NEEDED: Did the CAM development process result in any changes to your own internal processes or controls? For example, did you implement any new review processes? Were investor relations or general counsel involved in any way?
   f. IF NEEDED: From your perspective, at what point in the audit did most of the effort around CAMs occur?
   g. IF NEEDED: Was that effort significant?
   h. IF NEEDED: Did it have any effect on work on other tasks?

3. Did [either the dry run process or] the auditor’s communication of CAMs result in any reconsideration or changes to disclosures management made in the 10-K? For example, were there changes to the notes to the financial statements, critical accounting policies, MD&A, or risk factors?
   a. IF NEEDED: I see that there were changes to [CITE DISCLOSURE] from 2018 to 2019. Were these changes related to CAMs?
   b. IF NEEDED: What sort of changes?
   c. IF NEEDED: When did you make those changes?
4. Thinking now about CAM versus non-CAM topics – and I see you have [X] CAMs in the audit report related to [TOPICs]. In your perspective, did the nature or depth of discussion between CAM and non-CAM topics change in any way?
   a. IF NEEDED: Did the auditor ask more or different types of questions?
   b. IF NEEDED: Did they perform different types of procedures or request different types of information?
   c. IF NEEDED: Did the level of audit attention between CAM and non-CAM topics change in any way?

5. Again, thinking about your most recent audit, were there any changes between the first draft CAMs that you saw and the CAMs that ultimately appeared in the final audit report?
   a. In the drafting process, did management give any specific feedback to [AUDITOR] about the CAM(s) that [AUDITOR] planned to communicate?
      i. IF APPLICABLE: Did that feedback affect how [AUDITOR] ultimately communicated the CAMs in the audit report? If so, how?

6. Taking into account everything you’ve mentioned, how – if at all – would you say CAMs have affected your working relationship or your communications with [AUDITOR]?
   a. IF NEEDED: Is there more frequent communication, less frequent communication?
   b. IF NEEDED: Has the nature of communication with [AUDITOR] changed in any way?

7. I’d like to ask now about your observations on discussions with your auditor and audit committee on CAMs.
   a. In your perspective, did CAMs have any effect on the meetings? For example, did the nature of communication with you or the [AUDITOR] change in any way?
   b. IF NEEDED: Did audit committee members ask more or different types of questions?
   c. IF NEEDED: Was there more focus on matters that were identified as CAMs?
   d. IF NEEDED: Did the audit committee ask different questions of you?
   e. Were CAMs addressed at any other Board committees? If so, what was the nature of the discussions?

8. I’d like to move on to the topic of costs now. Overall, for [ISSUER] – from your perspective as a preparer – what would you say the main costs related to CAMs have been?
   a. IF NEEDED: These could be tangible costs such as new audit fees, or less tangible costs such as increased labor.
   IF COST WAS TIME:
      b. Could you provide me with a sense for the amount of time that management spent? And in which areas was the time incurred? [e.g., discussing CAMs with general counsel, investor relations, the audit committee, or the auditor?]
      c. At what point in the audit process did you spend most of that time?
      d. Would you expect to invest that level of time in future years? Why or why not?

9. For [ISSUER], did you experience a change in audit fees because of CAMs?
   a. IF YES: do you recall the amount?
b. IF APPLICABLE: did the auditor charge separately for the dry run?
c. Do you expect there will be any changes in fees as a result of CAM communications in future years?

10. Were there any other costs (either internal or external) that [ISSUER] incurred because of CAMs, that you haven’t mentioned yet?
   a. IF NEEDED: Would you expect those costs to be one-time or more recurring in nature? Or a combination of both?

11. I’d like to wrap up today on the topic of audit quality and financial reporting quality. Now that CAMs are being communicated, how do you think – if at all – financial reporting quality has or will change?
   a. IF NEEDED: What sort of changes?

12. Overall, do you think audit quality has changed or may change in the future because of CAMs?
   a. IF mainly positive responses: Have there been any negative effects on the quality of your audit?
   b. IF mainly negative responses: Have there been any positive effects on the quality of your audit?

13. Before we wrap up, is there anything else you’d like to share with us about the impact on you, your management team, or on [ISSUER] related to CAMs?