

Critical Audit Matters SPOTLIGHT

Overview

The new requirement for auditors to report critical audit matters (CAMs) is the most significant change to the auditor's report in more than 70 years. To support the implementation of the new requirement, the Public Company Accounting Oversight Board (PCAOB) has conducted extensive outreach to audit firms and other stakeholders as well as issued guidance and other resource tools. In 2019, we selected 12 audits of large accelerated filers with fiscal years ending on or after June 30, 2019, to specifically review how auditors of these filers implemented the CAM requirements. This Spotlight focuses on observations from our inspections of these new requirements and from our outreach and data analysis activities.

Consistent with the Board's strategic goal of providing more useful and timely information, we believe that sharing our initial observations from the experiences of the first adopters of CAM requirements could help auditors, companies, audit committees, and other stakeholders. To date, only a limited number of audits have been subject to the CAM requirements. The second effective date, which impacts audits of all other companies to which the requirements apply, is for audits of fiscal years ending on or after December 15, 2020.

When we engaged with audit teams and audit committees regarding the initial adoption of CAM requirements, our focus centered on three core objectives:

- I. Understanding the policies and procedures that firms have put in place to support and monitor the effective implementation of CAM requirements.
- II. Understanding how selected audit teams implemented CAM requirements.
- III. Gathering information to support monitoring of CAM requirements implementation.

The PCAOB staff has prepared this publication to provide information on PCAOB initiatives. This publication does not establish rules of the Board, nor has it been approved by the Board.

Contents

Overview	1
PCAOB Staff Observations	2
What's Next?	3
CAM Staff Guidance and Resources	3

Introducing Spotlight

This publication is the first Spotlight produced by PCAOB staff. The information in this CAMs Spotlight is not staff guidance; rather, it highlights timely and relevant observations for auditors and other key stakeholders. PCAOB staff plan to share insights on additional topics in future Spotlight documents.

PCAOB Staff Observations

The PCAOB staff's initial observations, outreach, and data analysis activities regarding firms' implementation of CAMs are set forth below. Some of these observations highlight practices we observed and our data analysis; others provide information that may be relevant as auditors continue to adopt the new requirements. The metrics are provided for informational purposes; the number of CAMs should be identified, audit by audit, based on the facts and circumstances of each audit.

Framework for implementing CAMs. Firms appear to have made significant investments in developing methodologies, tools, and training as well as providing targeted support for audit teams implementing the new requirements for the first time. Together with practice runs that most audit teams underwent, these investments appear to have made important contributions to support the firms' implementation efforts.

Preliminary CAM determination and drafting. Some audit teams reported beginning the process of determining and describing CAMs as early as the second or third quarter of the company's fiscal year. Starting early provided ample time to draft the CAM descriptions for the audit report and discuss the matters identified as well as the draft language with all relevant parties, including management and audit committees.

Ongoing CAM evaluation. Where CAM determination and drafting began early in the audit process, audit teams continued to evaluate the draft CAMs so that the final CAM determinations and CAM descriptions reflected the facts and circumstances of the current year's audit, including changes that happened during the year. When describing audit procedures in a CAM communication, the description should reflect the procedures performed and documented in the auditor's workpapers.

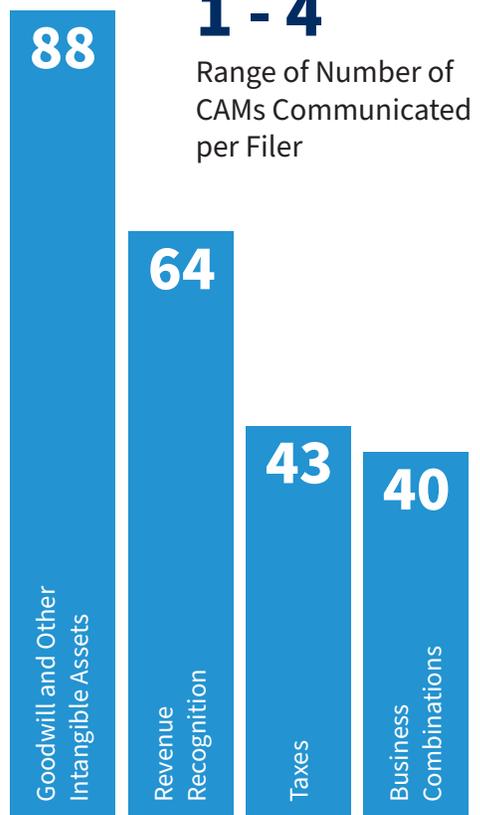
Subject matter expertise. Audit teams reported that it was helpful to involve a firm's national office as well as experts in tax, information technology, and other areas early and throughout the CAM determination and drafting process. Audit teams indicated that including individuals with specific expertise, knowledge, skills, or experience in the description of how CAMs were addressed was beneficial in providing input on the relevant portions of the CAM descriptions.

Management and audit committee involvement. Timely and robust engagement with management and the audit committee were important factors in the CAM implementation process. Starting with practice runs and throughout the first year of implementation, regular dialogue among the audit team, management, and the audit committee was helpful in building a common understanding of the purpose of the CAM requirements and in discussing CAM determinations and draft CAM descriptions.

To date, preliminary results from our outreach to audit committees suggest that they generally found the audit team's practice run processes to prepare for implementing the CAM requirements to be helpful and believe that CAM implementation has not changed their interactions with the auditor. While CAMs are the sole responsibility of the auditor, audit committees shared with us that they generally began discussing CAMs with their auditor in 2017 or 2018, well in advance of the effective date of the requirements in 2019.

189
Reports
Containing
CAMs

1.7
Average Number of
CAMs Communicated
per Filer



Most Frequently Communicated CAMs

As of November 30, 2019
Source: SEC's EDGAR system and PCAOB Office of Economic Risk Analysis

What's Next?

The Board is committed to fully understanding the impact of the requirements on audit firms, public companies, audit committees, and investors. We will continue to carefully monitor the phased implementation of the CAM requirements.

As a part of our review, PCAOB staff will conduct a preliminary analysis in 2020 to evaluate whether early evidence from implementation of CAM requirements is suggestive of significant costs or unintended consequences. As part of this analysis, we also plan to gain an initial understanding of:

- How auditors responded to CAM requirements
- Whether (and how) investors are using CAM communications, including any benefits observed from these communications
- Audit committee and preparer experiences

The PCAOB will assess stakeholders' experiences and the results of our analysis and determine whether further action may be necessary. The preliminary analysis we will perform in 2020 will not be a comprehensive evaluation of the overall effectiveness of CAM requirements because it is being performed prior to full implementation of CAMs on audits of smaller issuers. Some potential effects may take additional time to materialize or stabilize.

After a reasonable period of time following the completion of implementation for December 2020 audits, we will conduct a full [post-implementation review](#) to analyze the overall effect of the new requirements. For this review, we will reevaluate the costs and benefits of the requirements, including any unintended consequences, to understand the overall impact on the audit firms, public companies, audit committees, and investors. The post-implementation review will be made available to the public on our website.

CAM Staff Guidance and Resources

To assist with implementation of the new CAM communication requirements, [PCAOB staff issued several guidance documents](#) for auditors.

Staff also developed two resource documents, one specifically [for investors](#) and another specifically [for audit committees](#).

To receive future guidance and resources directly to your inbox and for periodic updates from the PCAOB, [please join our mailing list](#).

We Want to Hear from You

In an effort to continue to improve external communications and provide information that is timely, relevant, and accessible, we want to hear your views regarding this document. **Please take 2 minutes to fill out our [short survey](#).**

Stay Connected to PCAOB



Contact Us



Subscribe



PCAOB



@PCAOB_News