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June 15, 2020

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

**Re: Interim Analysis No. 2020-01, Critical Audit Matter  
Requirements**

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of important issues requiring action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs.

The CAQ appreciates the opportunity to share our views in response to the Public Company Accounting Oversight Board's (PCAOB or Board) *Request for Comment Interim Analysis of Critical Audit Matter Requirements* (Request for Comment). This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms throughout their implementation of the requirements related to critical audit matters (CAMs), but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.



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## **General Views**

The CAQ recognizes that the PCAOB worked diligently to develop an approach to the new auditor's reporting model that is intended to be beneficial to all stakeholders. The PCAOB and US Securities and Exchange Commission (SEC) have solicited feedback from multiple stakeholders during each phase of the standard setting process. Consistent with our recommendations to the SEC in August of 2017,<sup>1</sup> the CAQ supports the continued outreach by the PCAOB to monitor implementation of the auditor's reporting model. We believe that through this process, the SEC and PCAOB can better understand costs and benefits of the expanded auditor's report and identify any unanticipated or unintended consequences.

The PCAOB already has a post-implementation review program in place.<sup>2</sup> We continue to support a review approach that includes not only requests for public comment, but also analysis of data and information. Data collected through PCAOB inspection programs and review of relevant academic literature coupled with information gathered through focus group meetings with interested parties and experts including audit firms, investors, public companies, academics, and other interested groups also could provide the PCAOB valuable feedback on whether standards are achieving their intended objectives. Standard setters in other jurisdictions also have performed post-implementation reviews of recent changes to the auditor's report which has provided auditors, investors, and other stakeholders with valuable information about the new requirements.<sup>3</sup>

## **Public Company Auditing Profession Perspectives**

Companies prepare and present information about their business so that investors and other stakeholders can make well-informed decisions about the company's financial health and prospects. The bedrock of the capital market system is high quality, reliable financial statements, and investors and other stakeholders look to independent auditor's reports to help inform their decisions. The requirement to determine and communicate CAMs has provided an opportunity for auditors to provide users of the financial statements with additional insights into important matters addressed in the audit. As this was the most significant change to the auditor's report in decades, the public company auditing profession worked extensively to support the implementation of the PCAOB's requirement to determine and communicate CAMs. The phased effective dates for the CAM requirements provided auditors, issuers, and audit committees time to prepare for the requirements in advance of the effective date. This enabled many accounting firms to take on the significant activity of performing dry runs of the requirements. This consisted of involving certain audit teams in the identification and drafting of CAMs on a selection of issuer audits, as well as engaging with management and audit

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<sup>1</sup> Letter to the SEC: [Proposed PCAOB Rules on the Auditor's Report](#).

<sup>2</sup> <https://pcaobus.org/EconomicAndRiskAnalysis/CEA/Pages/post-implementation-review.aspx>.

<sup>3</sup> See the Financial Reporting Council's [report on extended auditor's reports](#) and the [IAASB's Plan for a Post-Implementation Review of the Clarified International Standards on Auditing](#).



committees during the dry run process. Accounting firms performing dry runs incurred CAMs related costs to prepare their clients and staff for the CAM requirements.

We appreciate the PCAOB staff guidance released in advance of the effective date of the requirements that was responsive to observations from the dry run processes conducted by the accounting firms. We believe these dry runs and the PCAOB's staff guidance helped to support an effective initial implementation of the requirements.

*Impact on audit procedures*

It takes time and effort to apply the requirements of the standard to determine whether a matter is a CAM and if so, to then draft the CAM. This time and effort often involved senior members of the engagement team. While determining and drafting CAMs required increased time and effort, the requirement to identify and communicate CAMs did not result in meaningful changes to the nature, timing, or extent of audit procedures performed for those related matters solely because a matter was identified as a CAM.

*Communication among auditors, audit committees, and management*

The CAMs requirements have not fundamentally changed the communications among auditors, audit committees, and management. Matters determined to be CAMs are generally those matters that had historically been discussed with management and the audit committee. However, in many instances the topic of implementing the CAM requirements prompted audit committees and members of management to take a fresh look at their own company disclosures. This contributed to meaningful dialogue among the audit team, company management, and the audit committee about the CAM communications and account(s) or disclosures to which the CAM related.

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# CAQ

The CAQ appreciates the opportunity to comment on the Request for Comment and would be pleased to discuss our comments or answer any questions that the Board or the staff may have regarding the views expressed in this letter. Please address questions to Catherine Ide ([cide@thecaq.org](mailto:cide@thecaq.org)) or Dennis McGowan ([dmcgowan@thecaq.org](mailto:dmcgowan@thecaq.org)).

Sincerely,



Catherine Ide  
Vice President, Professional Practice  
Center for Audit Quality

cc:

**PCAOB**

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