

June 15, 2020

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

**Re: PCAOB Interim Analysis 2020-01**

Dear Ms. Brown,

This letter is being submitted by Financial Executives International’s (FEI) Committee on Corporate Reporting (CCR) in response to the Public Company Accounting Oversight Board’s (PCAOB or “the Board”) Request for Comment *Interim Analysis of Critical Audit Matter Requirements*.

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of about 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing approximately \$10.8 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the PCAOB, SEC, and FASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

#### Executive Summary

CCR appreciates the PCAOB’s efforts to obtain input from stakeholders to understand the impact of critical audit matter (CAM) requirements. As preparers of financial information, we have a unique perspective about how CAM requirements impacted the financial reporting process. Overall, we do not believe that CAM requirements resulted in a significant change to the financial reporting process for preparers. Below you will find CCR’s answers to the specific preparer questions included in the Request for Comment.

- 1. Have preparers and audit committees experienced any changes in the financial reporting process as a consequence of CAM communications in the auditor’s report? For example, has the communication of CAMs led to changes in controls or practices around financial reporting and disclosure? Did CAM communications result in any reconsideration of, or changes to, disclosures management made in company filings (e.g., notes to the financial statements, critical accounting estimates, MD&A, or risk factors)?**

CCR companies experienced minimal changes to their financial reporting process as a consequence of CAM communications in the auditor’s report. CAM communications have not led to incremental controls or changes to existing controls for CCR companies, nor have they resulted in any significant reconsideration of, or changes to, disclosures management made in company filings for the majority of CCR companies. CCR companies validated that any information included in CAM communications was also disclosed elsewhere in the financial statements to ensure that CAM communication in the auditor’s report was not the original source of information. CCR members did not experience any situations where a CAM was not already disclosed in the financial statements.

**2. Have CAM communications had any impact on how audit committees approach their role and responsibilities?**

We do not believe that CAM communications have had any impact on how audit committees approach their role and responsibilities. By its nature, a CAM is inherently complex, material, and highly subjective. It is already common practice for CCR companies and their audit committees to discuss significant accounting and reporting issues, especially those that require a high degree of estimation uncertainty. Audit committees of CCR companies have similar discussions with the auditors to understand the audit approach and status of audit procedures relating to those significant accounting and reporting issues. The formalization of CAM communications in the audit report did not impact any of these discussions.

**3. Have auditors or preparers experienced any changes in a specific audit because of CAM requirements? For example, were there changes to the nature, timing, or extent of audit procedures performed on matters identified as CAMs, not because of changes in circumstances but because of CAM requirements?**

CCR companies did not experience changes to their audits because of CAM requirements. While auditors may have adjusted the nature, timing, or extent of certain audit procedures performed on matters identified as CAMs, any changes were generally not significant enough to be noticed by preparers.

**4. Did CAM requirements lead to changes in communications between auditors, audit committees, or preparers? For instance, were there changes in the nature or frequency of communications during the audit process? Did audit committee members ask more or different types of questions? Was there more focus on matters that were identified as CAMs?**

While the nature of discussions between auditors, preparers, and audit committees has not significantly changed as a result of CAM requirements, CCR companies did experience an increase in the frequency of communications. For example, additional discussions were required to review CAM language to be included in the auditor’s report. There were also additional communications between auditors, preparers, and audit committees to educate and plan for CAM requirements. When the requirements were first introduced and throughout the dry-run process, auditors informed management and their audit committees of their strategy to comply with the requirements.

Other than throughout the initial education of CAM requirements, audit committee members did not ask more or different types of questions to management or the auditors. We do not believe there was more focus on matters that were identified as CAMs.

- 5. Based on your experience as a preparer or auditor, what were the most significant activities that led to CAM-related costs? First, please describe each activity, including any preparatory activities (e.g., pilots or dry-runs). Next, please estimate the total costs related to CAM requirements in hours (and external spend, if applicable) for each of those activities for each calendar year from 2017-2019 and the period January-April 2020, distinguishing, to the extent possible, between costs related to preparatory activities and costs related to recurring activities. Finally, for any activities that will be recurring, state whether you believe the costs will increase, decrease, or not change for each activity in future years.**

As preparers, we did not incur significant incremental CAM-related costs, other than the opportunity cost of the time spent on CAM-related matters. Certain resources, including CFOs and CAOs, experienced incremental efforts to educate relevant personnel of CAM requirements, understand and discuss the auditor's process, and review CAM language to be included in the auditor's report. We anticipate that the majority of CAM-related costs were experienced by auditors, and therefore, future audit fees may be increased as a result of CAM requirements.

Further, CCR companies did not receive any questions from investors on the content or nature of CAM disclosures. We would encourage the PCAOB to continue to consider the relevance and impact to the investor community in its outreach to understand the benefits of the disclosures to users of the financial statements.

- 6. From your perspective as an auditor or preparer, at which stages of the audit process did most of your activities related to CAMs occur? Did the majority of your effort occur before or after the company's fiscal year end? What factors contributed to the timing of your efforts related to CAMs?**

The majority of CAM-related activities experienced by preparers occurred during the planning phase of the audit. During the planning phase of the audit, CCR members met with their respective audit teams frequently to discuss the processes that they would complete to fulfill CAM requirements and the language that would be used in the auditor's report. There were also some activities at year end to discuss the final CAM language and to prepare and review benchmarking information. CCR members note that the dry-runs were helpful in spreading out the time spent on CAM-related activity.

### Conclusion

CCR members do not believe that the current level of CAM requirements is particularly burdensome or impactful to preparers. However, CCR does not recommend that the PCAOB increase the scope of CAM requirements. We believe that additional requirements to CAM communications could result in an increase in resources and costs

for auditors, preparers, and audit committees without an identifiable incremental benefit to investors and their ability to make better investment decisions.

CCR appreciates the Board's effort to obtain input from stakeholders regarding the impact of CAM requirements and stands ready to assist the Board as it continues to evaluate CAM requirements.

Sincerely,

*Prat Bhatt*

Prat Bhatt  
Chairman, Committee on Corporate Reporting  
Financial Executives International