



The Association of
Accountants and
Financial Professionals
in Business

June 10, 2020

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

Re: PCAOB Interim Analysis No. 2020-01, Request for Comment, *Critical Audit Matter Requirements*

Dear Secretary:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to express its views on Public Company Accounting Oversight Board (PCAOB or Board) Interim Analysis No. 2020-01, Request for Comment (RFC), *Critical Audit Matter Requirements*. The FRC was engaged throughout the rulemaking process as the Board developed a final standard requiring the communication of Critical Audit Matters (CAMs) in auditors' reports, by providing comments on the concept release and subsequent proposals. We are pleased that the Board is extending its outreach to include efforts after finalization to understand the standard's implications, and that the PCAOB through the RFC targets preparer feedback specifically. We are also pleased with the Board's phased approach to these efforts, with the post-implementation review starting now with completion after the full implementation of the standard. It is important that the PCAOB not draw any final conclusions about the effectiveness and practicality of the CAM requirement until *all* companies have complied.

Overall, in our experience, the CAM requirements did not significantly affect companies, particularly in terms of existing financial reporting processes and related communications, costs, and interactions with investors. For example, on the latter point, it is our understanding that companies' Investor Relations groups have generally not received questions from analysts or others on the topic of CAMs. Below we provide responses to questions 4, 6, 7, 8 and 9, all of which pertain to questions in the RFC relevant for preparers.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Question 4 – Have preparers and audit committees experienced any changes in the financial reporting process as a consequence of CAM communications in the auditor's report? For example, has the communication of CAMs led to changes in controls or practices around financial reporting and disclosure? Did CAM communications result in any reconsideration of, or changes to, disclosures



management made in company filings (e.g., notes to the financial statements, critical accounting estimates, MD&A, or risk factors)?

Our members have generally not experienced changes in the financial reporting process, other than the addition of the communication from the auditor to the audit committee regarding the CAM topic(s) and the associated language in the auditor's report. This is in alignment with CAMs being an auditor, not a financial statement preparer, communication requirement.

Further, companies' existing disclosure processes and controls address changes in their business and environment and the inclusion of CAMs in the audit report has not changed how management takes into account its ongoing dialogue with the auditor throughout the audit. Along these lines, in our experience, companies did not significantly change the disclosures in their filings as a result of CAMs. We note that PCAOB staff implementation guidance states that CAMs "are rooted in the financial statements themselves."¹ We appreciate this point, as investors via the financial reporting process should not learn about a matter for the first time through a CAM. Any matters meeting the definition of a CAM (because they involve especially challenging, subjective, or complex auditor judgment) should otherwise be disclosed by management in the filing.

Question 6 – Have auditors or preparers experienced any changes in a specific audit because of CAM requirements? For example, were there changes to the nature, timing, or extent of audit procedures performed on matters identified as CAMs, not because of changes in circumstances but because of CAM requirements?

In our experience, companies did not observe changes to the nature, timing, or extent of audit procedures as a result of CAM requirements. Again, this is an expected result, since matters meeting the definition of a CAM (e.g., estimate or transaction involving especially challenging, subjective, or complex auditor judgment) already receive significant auditor attention under the audit performance requirements.

Question 7 – Did CAM requirements lead to changes in communications between auditors, audit committees, or preparers? For instance, were there changes in the nature or frequency of communications during the audit process? Did audit committee members ask more or different types of questions? Was there more focus on matters that were identified as CAMs?

Matters meeting the definition of a CAM are significant items already receiving the attention of auditors, audit committees, and preparers, due to prudence and preexisting requirements. In our experience, therefore, communications among the three parties generally did not change. It is worth noting that it was common practice for companies, auditors, and audit committees to engage in dry-runs of the CAM process in 2018 and CAM-related discussions continued through reporting on 2019 audits. That ongoing dialogue was around significant estimates, transactions, and other areas of judgment representing potential CAMs, in the context of understanding the application of the new requirements to the company under audit.

Question 8 – Based on your experience as a preparer or auditor, what were the most significant activities that led to CAM-related costs? (question truncated)

¹ See <https://pcaobus.org/Standards/Documents/Implementation-of-Critical-Audit-Matters-Deeper-Dive.pdf>



In our experience, the CAM requirements did not necessitate a significant level of investment for preparers and CAM-related costs to companies were generally considered inconsequential. This can be attributed to the fact that, as noted above, CAMs, by definition, were identified from the areas already getting significant attention during the normal auditing process.

To the Board's credit, the landing of CAMs was a non-event for many, if not most, preparers due, at least in part, to various PCAOB efforts both before and after the adoption of the final standard. First, the PCAOB made changes during the rulemaking process to address certain commenters' concerns that are reflected in the final standard and accompanying release (e.g., Board clarifications regarding original information and significant deficiencies). Second, the PCAOB undertook a range of thoughtful implementation efforts following the rule's adoption and in advance of its effective date (e.g., encouraging dry runs, conducting outreach, and issuing guidance). These efforts made the final rule and its implementation practicable; therefore, we urge the Board to build similar procedures into its activities for future standards.

Question 9 – From your perspective as an auditor or preparer, at which stages of the audit process did most of your activities related to CAMs occur? Did the majority of your effort occur before or after the company's fiscal year end? What factors contributed to the timing of your efforts related to CAMs?

From our preparer perspective, activities related to CAMs occurred throughout the year, as discussions between management and auditor were ongoing. The main discussions with the auditor focused on understanding each likely CAM and its associated language. These discussions generally took place during the auditor's audit planning stage (e.g., in Q2 or early Q3), with exceptions for CAMs related to transactions entered into later in the year, culminating in discussions near year-end as the auditor finalized their CAM(s). The year-end effort was generally minimal and limited to understanding the final CAM language.

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We would be pleased to discuss in greater detail the foregoing comments with the PCAOB or its staff at your convenience. We look forward to continued engagement with the Board, including in the future when it conducts a post-implementation review of AS 3101. Thank you for soliciting our input to the Board's interim analysis of CAM requirements.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com