

# Briefing on CAMs and Estimates and Specialists Post-Implementation Reviews

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# OVERVIEW

- Post-implementation review (PIR) objectives and methods.
- PIR Interim Analysis.
- Critical Audit Matters (CAMs) Interim Analysis.
- Estimates and Specialists (E&S) Interim Analysis.

# PIR OBJECTIVES AND METHODS

- OERA conducts PIRs to evaluate the overall effect of new or revised standards or rules.
- PIR can identify the need for guidance on the standard/rule, identify a need for future standard setting (e.g., amendments), increase awareness of standards, and clarify uncertainties that were identified during the rulemaking.
- We have several tools in our toolkit for the review:
  - Stakeholder outreach – surveys, targeted interviews, etc.
  - Econometric analysis, if data is available
  - Public request for comment
- We inform the public about the outcome of our analysis through Board Reports and staff white papers.

# PIR – INTERIM ANALYSIS

- PIR generally should take place several years after the rule's effective date.
  - Enables more complete assessment of economic effects, including those that may take some time to manifest.
- Recent use of interim analysis to monitor rules as they are implemented.
  - Leverage PIR skillset to generate preliminary findings.
  - Can provide early warning signal in time to make adjustments.

# CAMS INTERIM ANALYSIS

- The communication of CAMs arising from the audit is intended to inform investors and other financial statement users about matters that required especially challenging, subjective, or complex auditor judgment, and the response that the auditor had to those matters.
- Published Interim Analyses of the CAM requirements in both 2020 and 2022.
  - The CAM requirements took effect in June 2019 for audits of large accelerated filers (LAFs) and in December 2020 for audits of all other companies to which the requirements apply.

# CAMS INTERIM ANALYSIS (CONT'D)

- Allowed us to gain an initial understanding of:
  - Audit firm and audit engagement team responses to CAM requirements.
  - Investor use of CAM communications.
  - Audit committee and preparer experiences related to CAM implementation.
- Allowed us to evaluate whether early evidence from initial implementation of the CAM requirements is suggestive of significant costs, benefits, or unintended consequences.

# STAKEHOLDER OUTREACH ON CAMS

- Objectives:
  - Understand initiatives audit firms put in place to support implementation, associated costs, and challenges encountered.
  - Assess how CAM requirements impacted individual audits.
  - Understand issuer experiences with CAM implementation.
  - Evaluate investor use and perceptions of CAMs.
- Approach:
  - Survey audit firms.
  - Survey audit engagement partners.
  - Interview audit committee chairs and preparers.
  - Survey investors.

# STATISTICAL ANALYSIS ON CAMS

- Objective: Use internal and external data to monitor developments in CAM communications and evaluate impacts.
- Approach:
  - Descriptive statistics to summarize key trends and developments in CAM communications.
  - Econometric analysis to evaluate the effect of CAMs on outcomes of interest (e.g., investor responses, audit fees, audit hours).



# KEY FINDINGS FROM CAMS INTERIM ANALYSIS

- The average number of CAMs per audit report has declined over time, and the proportion of audit reports that communicate a single CAM has increased.
- Investor awareness and use of CAMs continues to develop.
  - Some investors seeking more specific language.
- No evidence of significant unintended consequences.
  - Issuers report generally smooth auditor implementation.
- The Board reminds auditors that they must communicate in their audit reports all matters relating to the audit of the current period's financial statements which meet the definition of a critical audit matter under AS 3101.

# E&S INTERIM ANALYSIS

- The new Estimates Requirements establish a uniform, risk-based approach to auditing accounting estimates and strengthen requirements under the pre-existing substantive testing approaches.
- The new Specialists Requirements strengthen requirements for evaluating the work of a company's specialist, whether employed or engaged by the company, and apply a risk-based supervisory approach to both auditor-employed and auditor-engaged specialists.
- Published an Interim Analysis of the Estimates Requirements and the Specialists Requirements in December 2022.

## E&S INTERIM ANALYSIS (CONT'D)

- Allowed us to gain an initial understanding of the impact of the E&S requirements on the quality of audit services and on audit committees, preparers, and audit firms.
- Allowed us to evaluate whether early evidence from initial implementation of the E&S requirements is suggestive of significant costs, benefits, or unintended consequences.

# STAKEHOLDER OUTREACH ON E&S

- Objectives:
  - Understand initiatives audit firms put in place to support implementation, associated costs, and challenges encountered.
  - Assess impacts on individual audits.
  - Consider potential for disproportionate impacts on small audit firms.
  - Understand issuer experiences with initial implementation.
  - Provide opportunity for all interested stakeholders to provide input.
- Approach:
  - Survey audit firms.
  - Interview audit engagement partners.
  - Interview audit committee chairs and preparers.
  - Issue a public request for comment.

# STATISTICAL ANALYSIS ON E&S

- Objective:
  - Monitor changes (if any) in usage of specialists.
- Approach:
  - Descriptive statistics to summarize key trends and developments in Specialists usage.

# KEY FINDINGS FROM E&S INTERIM ANALYSIS

- About one-third of the audit firms in the staff's survey reported that the new requirements improved auditing practices.
  - Other audit firms reported that the effects of the new standard were limited and generally asserted that their prior policies and methodologies were already largely aligned with the new requirements.
- Audit firms had significant variation in the amount of time they spent to support implementation of the new requirements and in training firm personnel for these new requirements.
  - Engagement-level costs are not significant.
- Statistical analysis of PCAOB inspection data finds evidence of changes in specialist usage following the new requirements.
- No evidence of significant unintended consequences or implementation challenges associated with the new requirements.

# FUTURE PROJECTS

- Continue to monitor the implementation of the CAMs requirements and the E&S requirements and evaluate the timeline for further PIR analysis.
- Currently planning for an interim analysis of the recently adopted Supervision of Other Auditors requirements.
- Expect to add PIR projects as other new or amended rules and standards are approved.

# DISCUSSION QUESTIONS

- CAMs and E&S interim analysis:
  - What investor groups should we focus on soliciting feedback from?
  - How can we build up a list of relevant investor contacts?
  - What types of outreach are investors more likely to respond to and provide useful inputs, e.g., surveys, interviews, focus group discussions?
  - What additional analyses – beyond those presented in the published interim analysis reports – might the staff consider?
- Supervision of other auditors:
  - Have you observed any changes in auditing practice in anticipation of the amended PCAOB and/or IAASB requirements? If yes, are there any implications of these changes on audit quality?