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By email: comments@pcaobus.org

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:

BDO USA, LLP appreciates the opportunity to comment on our initial experiences with Critical Audit Matters (“CAMs”) as auditors of issuer companies 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).

General Views

We support the PCAOB’s outreach to stakeholders to assist in the post implementation review of AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. Our initial experience with CAMs indicates that both preparers of financial statements and audit committee members are interested in the matters we identify as CAMs, the way in which we describe those matters, and how we responded to them within our audit reports.

Impact on financial reporting process

In our experience, both preparers and audit committees have participated in discussions with the auditors around CAM communications to be included in the auditor’s report. Given the general lack of understanding, we identified a need to educate our clients regarding the CAM provisions of AS 3101 and the impact on our audit reports. We have observed that processes have been designed and implemented by preparers and audit committee members to review the CAM communication as a part of their financial reporting oversight responsibilities. However, we have not observed significant changes in controls or practices around financial reporting and disclosures as a result of CAM requirements. We have observed that the implementation of the CAM requirements has provided an opportunity for auditors, preparers and audit committees to revisit management’s disclosures in the areas identified as CAMs in a more focused and purposeful way. We have experienced situations in which management and the audit committee have found it appropriate to further refine management’s disclosures.



Impact on the nature, timing or extent of audit procedures

We have not observed significant changes in the nature, timing or extent of audit procedures as a result of a matter being identified as a CAM. We have observed situations where our evaluative CAM assessment process has enabled engagement teams to describe their assessed risks of material misstatement more clearly and, as a result, describe the audit procedures performed in response to such risks more precisely. For example, when evaluating principal considerations that give rise to a CAM, an engagement team may be able to better drill down to identify the precise component of a material account or disclosure that gives rise to a CAM, and through that evaluation, also, better describe the related assessed risk of material misstatement.

Changes in communications between auditors, audit committees or preparers

In our experience, the CAM requirements did not significantly alter the nature of the matters discussed with audit committees and preparers, as CAMs generally relate to those matters that were historically the focus of audit committee and preparer communications. The nature of questions we received from audit committee members and preparers in relation to CAMs varied from engagement to engagement. In many instances, audit committee members were very interested in understanding our evaluation process, our considerations in determining if a matter meets the definition of a CAM, and the principal considerations that led to our conclusions. In other instances, we observed no change in the amount of time spent discussing a matter that was identified as a CAM when compared to the time spent discussing the same matter prior to conducting our dry runs or implementation of CAMs.

Stages of the audit process where CAM activities occur

Our engagement teams spend significant time assessing potential CAMs prior to the end of the company's fiscal year. The process is iterative and involves consideration of all matters communicated or required to be communicated to the audit committee, as they occur throughout the year. We focus on providing a preliminary evaluation of potential CAMs shortly after the planning communication process is complete and updating such evaluation for any changes through the end of the company's fiscal year and report issuance. This allows for ample time for the engagement team to perform a robust assessment and have focused discussions with preparers and audit committee members about the identified areas and draft wording of CAM communications.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Christopher Tower, National Assurance Managing Partner – Audit Quality and Professional Practice, at 949-300-4333 (ctower@bdo.com) or Phillip Austin, National Assurance Managing Partner - Auditing, at 312-259-0357 (paustin@bdo.com).

Yours sincerely,

BDO USA, LLP

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