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

Request for Comments: Interim Analysis No. 2020-01, Critical Audit Matter Requirements

Dear Secretary:

This letter addresses the PCAOBs stated objective in the Request for Comments (the “Request”),¹ which is “to gain an initial understanding of ... whether and how investors are using CAM communications”

The three questions asked in the Request that refer to investors are set out in bold text, followed by my comments and observations.

Questions for investors, analysts, and other financial statement users

Question 1. Have you as an investor, analyst, or other financial statement user read any auditors’ reports that contain CAMs? Approximately how many?

I am commenting on the Request as an investor. While I have an interest in other business sectors, for purposes of this letter my focus is as an investor in the commercial airline industry, and my experience with Critical Audit Matters (“CAMs”) as well as Key Audit Matters (“KAMs”) found in the auditors’ reports of airline companies.

I follow and have invested in a broad range of air carriers, including low-cost, ultra-low-cost, and traditional network carriers, both domestic and foreign. Over the past several months, I have read and analyzed the annual financial statements and auditor’s reports of fifteen airlines where the auditor reported CAMS, and seventeen where the auditor reported Key Audit Matters (“KAMs”).² Thirty-two companies in total, a limited but carefully read concentrated sample.

¹ Request for Comments: Interim Analysis No. 2020-01, Critical Audit Matter Requirements (April 17, 2020), <https://pcaobus.org/EconomicAndRiskAnalysis/pir/Documents/RFC-Interim-Analysis-CAM-Requirements.pdf>

² Such annual financial statements were audited in accordance with standards other than the PCAOBs, for example the “audit was conducted in accordance with—

Why did you read them?

Now that the Auditing Standard is effective for audits of large accelerated filers with fiscal years ending on or after June 30, 2019, and the audit reports of December 31, 2019 year-end companies discussed CAMs, I read those expanded reports to better understand, analyze and assess the CAM disclosures. I read them to see if they were useful, were relevant to my needs and just how the information would fit into my investment decisions. I read the CAM disclosures to determine if CAMs could have some direct and objectively measurable influence on my decisions to buy, sell, or hold a security. I was interested to read and learn just which accounts or disclosures met the definition of a CAM and if there was a common thread of such disclosures running through the airline industry, a particular peer group, or if they were unique and isolated.

In addition, I read the reported CAMs to determine whether the information was of some value in voting on proposals put to shareholders.

Prior to CAM implementation, did you read auditors' reports?

Yes.

Question 2. What effects, if any, have investors, analysts, or other financial statement users experienced from the communication of CAMs in the auditor's report?

For example, have any of the following changed as a result of CAM communications:

- **Ability to analyze companies' financial statements or make investment decisions**

Most of the information and data used in analyzing a company is found outside of the financial statements. As for financial statements, to date, the disclosure of CAMs has not changed my ability to analyze the annual reports and Form 10-K, the registrant's correspondence with the SEC, management presentations to analysts, and earnings calls.

The information content in CAMs is negligible in comparison to the ocean of information to read, investigate and analyze in following the airline and other industries.

Moreover, I find the information in CAM disclosures stale and trivial when viewed in context with the current 2020 economic environment. As a consequence of COVID-19 and the global recession, this year is expected to be the worst year in history for the airline industry in terms of operating losses, cash burn, reductions in flight capacity, investment in new aircraft, decline in demand, etc.

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- good auditing practice in Finland;
 - International Standards on Auditing (ISAs);
 - Australian Auditing Standards;
 - Singapore Standards on Auditing (SSAs);
 - Hong Kong Standards on Auditing ("HKASs") issued by the HKICPA."

For now, the information in CAMs has not played any role in my voting on the shareholder proposals set out in the proxy statements.

- **Content of analyst reports or internal buy/sell/hold recommendations**

I have not come across any investment analyst reports that explicitly referenced CAMs entering their analysis, or for that matter make any reference at all to the auditor's opinion. It is not apparent that CAM reporting has in fact influenced the analysts' reports I have read.

- **Interactions with management, such as developing new or better-informed questions**

I have no information or knowledge about whether questions asked by analysts, investors, or financial statement users, of management, or of the audit committee, stem directly or indirectly from the auditor's disclosures of CAMs.

If there are "new or better-informed questions" being posed to management or audit committees pertaining directly to information in a reported CAM, the question is what, if anything, should management or the audit committee say to analysts about the CAM? The CAM disclosure is in the auditor's report; accordingly, the auditor should be the party to explain a reported CAM. Should the auditor say anything more than that which is stated in their opinion? Should the auditor discuss the other procedures they followed (but did not disclose) to satisfy themselves as to the CAM? Should the auditor expand on the outcome of those procedures? The answers to these questions should be "no."

- **Understanding of disclosures made by company management (e.g., in MD&A)**

Since some financial statement disclosures subject to CAM reporting may also appear in Critical Accounting Policies and Estimates (as a part of MD&A), or in the Business, Risk Factors, or elsewhere in a Form 10-K, the CAM is therefore linked to those disclosures. To the extent a CAM expresses the auditor's heightened concern with an account or disclosure, the auditor is also conveying a concern about the information in those other non-financial statement locations. While CAMs are neither good or bad, or positive or negative, some investors and analysts may believe that the accounts or disclosures appearing outside of the audited annual financial statements are linked to the CAMs in the auditor's report, and are therefore verified to a higher level of assurance than is actually expressed in the auditor's report; which is perceived by the investor/analyst as "good" and a "positive."

Assuming that MD&A was crafted following all of the SEC's guidance, this linkage with a CAM should not make the MD&A (or other information) any more useful or relevant to an investor in understanding the registrant's significant risks, management's judgments, operating trends and potential variability of a company's earnings and cash flows.

- **Understanding of auditors' work**

Reading the exposition of the various audit procedures undertaken by the auditor - under a caption such as "How We Addressed the Critical Audit Matter in Our Audit"-- reinforces the belief that the account or disclosure reported by the auditor as a CAM has had much more scrutiny than is "normal." Notwithstanding the report says that there is no separate opinion expressed or implied, many investors are likely to believe otherwise, that is, that the separately stated subject matter of the CAM has in fact been subject to a higher level of assurance and therefore validated (and ("certified") by the auditor. This is the perception, even though the auditing standard requires that the auditor's report must state –

"The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate."³

When reading CAMs, it is clear that many of the procedures listed seem routine, and are tedious to read.⁴ Reading the audit steps can make boring reading and I have not yet determined just what information can be gleaned from them that is useful to an me or other investors. I - and likely others - would appreciate the PCAOB's guidance (with examples) explaining how the exposition of the auditor's procedures can be used in forming and making investment decisions.

- **Proxy voting decisions, including ratification of the audit committee's choice of external auditor**

I have no direct knowledge about the influence of CAMs on proxy voting, or the ratification of the independent registered auditor by other investors.

Please describe how CAM communications contributed to the changes and, if applicable, whether you anticipate additional changes in the future.

I am not aware of any changes due to CAM disclosures.

Question 3. If you are an investor, analyst, or other financial statement user who has read CAMs for multiple public companies, did you find some CAMs to be more useful than others?

If so, what were the factors that made them more useful?

³ See paragraph 15 of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

⁴ A small sample, "...we obtained an understanding ... we evaluated and tested the internal controls ... we developed an estimate ... we tested the completeness and accuracy ... we assessed the arithmetical accuracy of xyz ... we re-performed the mathematical calculations."

As said, I have not been able to make any practicable use of the CAM (and KAM) disclosures in my analysis of companies in the airline industry. Further, I personally know of no analysts that actually use this information to make investment or voting decisions.

Perhaps the responses by others to this Request - and future PCAOB post-implementation reviews—will make a believable case as to exactly how investors factor the CAM disclosures into their technical or fundamental analysis regarding investments. In addition, I am aware of no evidence that these disclosures are relevant, important, and useful in voting on proposals in proxy statements. I cannot imagine that a CAM, or several CAM disclosures, could influence a decision to vote for or against the retention of the independent auditor; however, I am open to other perspectives regarding CAMs and the retention of the auditor.

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I appreciate the opportunity to express my views on the Interim Analysis No. 2020-01, Critical Audit Matter Requirements, and would be pleased to answer any questions the Board or the Staff may have.

Sincerely,

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