

Via Email

June 11, 2020

Ms. Phoebe W. Brown  
Office of the Secretary  
PCAOB  
1666 K Street, NW  
Washington, DC 20006-2803

**Re: Interim Analysis No. 2020-01, Critical Audit Matter Requirements<sup>1</sup>**

Dear Madam Secretary:

The Council of Institutional Investors (CII) is pleased to provide you with our responses to the three questions raised for “**investors, analysts, and other financial statement users**”<sup>2</sup> in conjunction with the Public Company Accounting Oversight Board’s (PCAOB) *Request for Comment, Interim Analysis of Critical Audit Matter Requirements* (RFC).<sup>3</sup>

CII is a nonprofit, nonpartisan association of U.S. public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately \$4 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families, including public pension funds with more than 15 million participants – true “Main Street” investors through their pension funds. Our associate members include non-U.S. asset owners with about \$4 trillion in assets, and a range of asset managers with more than \$35 trillion in assets under management. Our associate members also include the five largest accounting firms and the Center for Audit Quality.<sup>4</sup>

Our members believe that accurate and reliable audited financial reports are critical to making informed investment decisions, and vital to the overall well-being of our capital markets.<sup>5</sup> Our

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<sup>1</sup> Public Company Accounting Oversight Board, Request for Comment, Interim Analysis of Critical Audit Matter Requirements (Apr. 17, 2020), <https://pcaobus.org/EconomicAndRiskAnalysis/pir/Documents/RFC-Interim-Analysis-CAM-Requirements.pdf>.

<sup>2</sup> *Id.* at 2.

<sup>3</sup> *Id.* at 1.

<sup>4</sup> For more information about the Council of Institutional Investors (“CII”), including its board and members, please visit CII’s website at <http://www.cii.org>.

<sup>5</sup> CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (updated Mar. 1, 2017), [https://www.cii.org/policies\\_other\\_issues#indep\\_acct\\_audit\\_standards](https://www.cii.org/policies_other_issues#indep_acct_audit_standards) (“Audited financial statements including related disclosures are a critical source of information to institutional investors making investment decisions [and]

members also believe that factors relevant to investors and audit committee oversight of the independent auditor include the “quality and frequency of communication from the auditor to the audit committee [and] . . . the clarity, utility and insights provided in the auditor’s report . . . .”<sup>6</sup> Finally, our members believe that investors are the key customers of audited financial reports and, therefore, the primary role of those reports should be to satisfy investors’ information needs.<sup>7</sup>

The following are CII’s responses to the three questions in the RFC:

**1. Have you as an investor, analyst, or other financial statement user read any auditors’ reports that contain CAMs? Approximately how many? Why did you read them? Prior to CAM implementation, did you read auditors’ reports?**<sup>8</sup>

As the PCAOB is well aware, since the 1940s the traditional auditor’s report has been largely boilerplate and has done little to address the information asymmetry between investors and auditors, even though investors have consistently asked to hear more from the auditor, an independent third-party expert whose work is undertaken for their benefit.<sup>9</sup>

CII believes that many investors are reading auditor’s reports that contain critical audit matters (CAMs).<sup>10</sup> CII staff has to-date read more than 190 auditors’ reports that contain

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[t]he efficiency of global markets—and the well-being of the investors who entrust their financial present and future to those markets—depends, in significant part, on the quality, comparability and reliability of the information provided by audited financial statements and disclosures.”)

<sup>6</sup> CII, Corporate Governance Policies § 2.13a Audit Committee Responsibilities Regarding Independent Auditors (last updated Mar. 10, 2020), [https://www.cii.org/files/03\\_10\\_20\\_corp\\_gov\\_policies\(1\).pdf](https://www.cii.org/files/03_10_20_corp_gov_policies(1).pdf).

<sup>7</sup> See *id.* (“Investors are the ‘customers’ and end users of financial statements and disclosures in the public capital market [and] [b]oth the audit committee and the auditor should recognize this principle”); CII, Policies on Other Issues, Independence of Accounting and Auditing Standard Setters (“Attributes that underpin an effective accounting or auditing standard setter include: . . . A clear recognition that investors are the key customer of audited financial reports and, therefore, the primary role of audited financial reports should be to satisfy in a timely manner investors’ information needs”).

<sup>8</sup> Public Company Accounting Oversight Board, Request for Comment, Interim Analysis of Critical Audit Matter Requirements at 2 (emphasis added).

<sup>9</sup> See The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards, PCAOB Release No. 2017-001 at 2 (June 1, 2017), <https://pcaobus.org/Rulemaking/Docket034/2017-001-auditors-report-final-rule.pdf> (“Stated differently, the auditor’s report does little to address the information asymmetry between investors and auditors, even though investors have consistently asked to hear more from the auditor, an independent third-party expert whose work is undertaken for their benefit.”); Letter from Amy C. McGarrity, Chief Investment Officer, Colorado Public Employees’ Retirement Association to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board (May 28, 2020), [https://pcaobus.org/EconomicAndRiskAnalysis/pir/PostImplementationReviewAS3101UnqualifiedOpinion/3\\_CoPE\\_RA.pdf#search=copera%20May%2028%2C%202020](https://pcaobus.org/EconomicAndRiskAnalysis/pir/PostImplementationReviewAS3101UnqualifiedOpinion/3_CoPE_RA.pdf#search=copera%20May%2028%2C%202020) (“Prior to the implementation of CAMs, our investors would scan the auditor’s report, largely looking for the unqualified opinion.”); Todd Castagno, et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night 1 (Feb. 4, 2020) (on file with CII) (“The traditional auditor’s report is boilerplate and produces little information, except the infrequent occurrence of a qualification, internal control deficiency or a rare ‘going concern’ disclosure.”).

<sup>10</sup> See Letter from Amy C. McGarrity, Chief Investment Officer, Colorado Public Employees’ Retirement Association to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board (“Today,

CAMs.<sup>11</sup> Last December CII Research and Education Fund (CII-REF) published a report describing our observations from that review (CII-REF Report).<sup>12</sup> Those observations are discussed in more detail in response to question 3.

**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
- Content of analyst reports or internal buy/sell/hold recommendations
- Interactions with management, such as developing new or better-informed questions
- Understanding of disclosures made by company management (e.g., in MD&A)
- Understanding of auditors’ work
- Proxy voting decisions, including ratification of the audit committee’s choice of external auditor

**Please describe how CAM communications contributed to the changes and, if applicable, whether you anticipate additional changes in the future.**<sup>13</sup>

As with most financial data, CII believes changes as a result of CAM communications will become more evident after a period of years as comparative trends in CAMs<sup>14</sup> are systematically captured by data providers and then fed downstream to investors, analysts, and other financial statement users.<sup>15</sup> Moreover, as indicated in response to question 3, we would expect the changes, particularly with respect to proxy voting decisions,<sup>16</sup> to become more

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reviewing the CAMs has become an important step in many investors’ due diligence process.”); Todd Castagno et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night at 4 (“We have collected and grouped all reported CAMs for companies with a market cap greater than \$500M that filed before 12/31/2109.”).

<sup>11</sup> See Jeff Mahoney, CII Research and Education Fund, Critical Audit Matters Reporting: A First Look 4 (Dec. 19, 2019), [https://7677c7b7-7992-453f-8d12-74ccbdb23c.filesusr.com/ugd/72d47f\\_31e4591ec8954801a6c3d9a717d66310.pdf](https://7677c7b7-7992-453f-8d12-74ccbdb23c.filesusr.com/ugd/72d47f_31e4591ec8954801a6c3d9a717d66310.pdf) (“Drawing on a review of the CAMs of more than 190 companies, this report provides some general observations about the utility of the CAMs that have been issued as of December 5, 2019”).

<sup>12</sup> *Id.*

<sup>13</sup> Public Company Accounting Oversight Board, Request for Comment, Interim Analysis of Critical Audit Matter Requirements at 2-3 (emphasis added).

<sup>14</sup> See Todd Castagno et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night at 7 (“By analyzing matters that either continue to show up, or are added/dropped from CAMs in a given year, investors and analysts may be able to gain insight into where they can focus their attention to extract alpha”).

<sup>15</sup> See *id.* at 2. (“We expect data providers will eventually systematically capture these disclosures, which will likely feed downstream analysis and models.”).

<sup>16</sup> See The Case for Individual Audit Partner Accountability with Colleen Honigsberg, CII (Jan. 2020), <https://www.cii.org/podcasts#:~:text=Podcast%3A%20The%20Voice%20of%20Corporate%20Governance,corporate%20governance%20and%20capital%20markets> (Professor Honigsberg commenting that auditor disclosure of the outcome of the procedures performed or key observations “would be really helpful [and] . . . [i]f we had that type of information, maybe the auditor ratification votes would be a little more useful.”); see also The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to

pronounced to the extent the CAM communications begin to include information about the outcome of the audit procedures performed and key observations of the auditor with respect to the matter.<sup>17</sup> We note that global securities regulators appear to agree that this type of information communicated by the independent auditor may be particularly beneficial to investors during the COVID-19 pandemic.<sup>18</sup>

That said, we believe there is ample evidence that CAM communications have already resulted in a number of changes that generally benefit investors and the capital markets.

*Improved ability to analyze companies' financial statements and make investment decisions*

CII believes CAM communications have improved investors ability to analyze companies' financial statements and make investment decisions. Reviewing CAMs has become an important step in many investors' due diligence process.<sup>19</sup>

Investors read CAMs to gain a better understanding of the quality of a company's financial statements.<sup>20</sup> That information is useful to investors who perform fundamental analysis as part of their investment decision-making.<sup>21</sup>

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

CII believes CAM communications have improved interactions with management by providing investors with more information so that "investors can have more constructive conversations with management about auditors and audit findings."<sup>22</sup>

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PCAOB Standards, PCAOB Release No. 2017-001 at 3 ("Some investors believe that critical audit matters will highlight areas that they may wish to emphasize in their engagement with the company and provide important information that they can use in making proxy voting decisions, including ratification of the appointment of auditors.").

<sup>17</sup> See The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Release No. 2017-001 at 30 ("Several investors suggested that the auditor should be required or encouraged to provide informative, company-specific findings when describing how the critical audit matter was addressed"); *id.* at 31 (indicating that a working group of the PCAOB's own Investor Advisory Group "stressed the importance to investors of auditor findings, which they described as 'the one item that [they] believe would provide the greatest value to investors.'").

<sup>18</sup> See OICU-IOSCO, IOSCO Statement on Importance of Disclosure about COVID-19 (May 29, 2020), <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD655.pdf> ("For annual reporting, the external auditor's report may also provide additional information to investors during the COVID-19 pandemic [and] [a]uditors are reminded of their responsibilities to report on Key Audit Matters (KAM), including a description of how the auditor addressed these matters.").

<sup>19</sup> See Letter from Amy C. McGarrity, Chief Investment Officer, Colorado Public Employees' Retirement Association to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board ("Today, reviewing the CAMs has become an important step in many investors' due diligence process").

<sup>20</sup> *Id.* ("Our investors read the CAMs to . . . assess the quality of . . . financial reporting").

<sup>21</sup> *Id.* ("we believe our investors are sufficiently aware of the CAMs and their usefulness to fundamental analysis").

<sup>22</sup> *Id.* ("Our investors read the CAMs to gain a better understanding of the audit process, and to assess the quality of audit and financial reporting").

*Improved quality and understanding of disclosures made by company management (e.g., in MD&A)*

CII believes CAM communications have improved both the quality and investor understanding of disclosures made by company management. CAMs are encouraging company management to “provide a contextualized presentation of the issues underlying the CAMs communicated in the reports of their auditors.”<sup>23</sup> For example, a report analyzing data from a survey of corporate officials who participated in dry run discussions on implementation of CAMs found that 52% of large accelerated filers and 61% of all other companies are considering enhancing their financial statement disclosures in light of communicated CAMs.<sup>24</sup>

We also believe that CAMs are contributing to improved investor understanding of the disclosures made by company management in at least two ways. First, CAMs are contributing to improved understanding of the disclosures made by company management in its “Critical Accounting Estimates” (CAEs).<sup>25</sup> An SEC staff member has pointed out that there may be overlap between CAMs and CAEs and that some CAMs may raise issues about accounting estimates that will need to be considered when preparing disclosures about CAEs.<sup>26</sup> While CAMs are not intended to be the same as CAEs, we believe that investors can find it informative to compare the two.<sup>27</sup>

Second, because most of the CAMs filed to date relate to some of the most complex areas of Generally Accepted Accounting Principles (GAAP),<sup>28</sup> CAMs are helping investors better

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<sup>23</sup> See Covington, Trends in Initial Reporting of Critical Audit Matters 4 (Jan. 28, 2020), <https://www.cov.com/-/media/files/corporate/publications/2020/01/trends-in-initial-reporting-of-critical-audit-matters.pdf>.

<sup>24</sup> See Marc Butler et al., Critical Audit Matters: Public Company Adaption to Enhanced Auditor Reporting, Intelligize 3 (Sept. 10, 2019), <https://www.intelligize.com/critical-audit-matters-public-company-adaptation-to-enhanced-auditor-reporting-form/> (“52% of large accelerated filers and 61% of other companies facing CAMs are considering updates to financial statement disclosure”).

<sup>25</sup> See SEC Interpretation, Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations, Securities Act Release No. 8,350, Exchange Act Release No. 48,960 (Dec. 29, 2003), <https://www.sec.gov/rules/interp/33-8350.htm> (Describing critical accounting estimates as “accounting estimates and assumptions that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance.”).

<sup>26</sup> See Louis J. Collins, Professional Accounting Fellow, Office of the Chief Accountant, Remarks before the 2019 AICPA Conference on Current SEC and PCAOB Developments (Dec. 9, 2019), <https://www.sec.gov/news/speech/collins-speech-2019-aicpa-conference> (“We also observe instances where an identified CAM was a component of the related critical accounting estimate.”).

<sup>27</sup> See Letter from Sandra J. Peters CPA, CFA, CPA Senior Head, Global Financial Reporting Policy General Counsel, CFA Institute et al. to Vanessa A. Countryman, Secretary, Securities and Exchange Commission 5 (Apr. 28, 2020), [https://www.cii.org/files/issues\\_and\\_advocacy/correspondence/2020/CFA%20and%20CII%20Response%20to%20SEC%20Proposal%20on%20MDA.pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/2020/CFA%20and%20CII%20Response%20to%20SEC%20Proposal%20on%20MDA.pdf) (“Although we appreciate that CAMs are not necessarily the same as Critical Accounting Estimates, there is a potentially substantial area of overlap, and some investors will find it informative to compare the two.”).

<sup>28</sup> See Todd Castagno et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night at 2 (“One clear observation from reviewing and CAMs filed to



understand those complexities and the companies' related reporting and disclosure challenges.<sup>29</sup> One potential effect of this better understanding of the complexities of GAAP is that investors may be more inclined to actively support opportunities to improve, simplify, and reduce the costs of financial accounting and reporting.<sup>30</sup>

*Improved understanding of the auditor's work*

CII believes CAM communications have assisted investors in gaining a better understanding of the auditor's.<sup>31</sup> With CAMs, we believe investors get a better sense of the audit process and its complexities.<sup>32</sup> That better understanding aids investors as shareowners in fulfilling their oversight, evaluation, and proxy voting responsibilities with respect to the audit committee and the external auditor.<sup>33</sup>

*Improved quality of financial reporting generally*

CII believes CAM communications have improved the quality of financial reporting generally. For example, a research paper examining tax related CAM disclosures found:

[D]isclosure of a tax-related CAM appears to eliminate the use of tax expense as an earnings management tool. Additionally, we observe that companies with tax-related CAMs alter their reporting of [uncertain tax benefits] UTBs via downward adjustments to prior-period positions. Taken together, these results confirm the PCAOB's expectation that expanded audit reporting could indirectly benefit investors by increasing management and auditor scrutiny of the matters underlying CAMs.<sup>34</sup>

Perhaps the improvement in the quality of financial reporting for income taxes is, in part, the result of the likely focus of the Securities and Exchange Commission (SEC), the PCAOB, and

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date is that matters most often cited also appear to be some of the most complex area of GAAP"); *id.* at 4 ("the most cited CAMs relate to intangible assets, revenue recognition, and taxes).

<sup>29</sup> *Id.* at 2 ("With CAMs, we believe stakeholders will get a better sense for costs of complying with complex financial accounting standards").

<sup>30</sup> *Id.* ("Hopefully, this will lead to opportunities for simplification and reduce costs across the system").

<sup>31</sup> See Letter from Amy C. McGarrity, Chief Investment Officer, Colorado Public Employees' Retirement Association to Ms. Phoebe W. Brown, Office of Secretary, Public Company Accounting Oversight Board ("Our investors read the CAMs to gain a better understanding of the audit process, and to assess the quality of audit and financial reporting.").

<sup>32</sup> See Todd Castagno et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What's Keeping The Auditor Up at Night at 2 ("With CAMs, investors will get a better sense of the audit process and its complexities.").

<sup>33</sup> See CII, Corporate Governance Policies § 2.13a Audit Committee Responsibilities Regarding Independent Auditors ("Even in the absence of egregious reasons, the committee should consider the appropriateness of periodically changing the auditor, bearing in mind factors that include, but are not limited to: . . . • the clarity, utility and insights provided in the auditor's report . . ."); *id.* § 2.13f Shareowner Votes on the Board's Choice of Outside Auditor ("Audit committee charters should provide for annual shareowner votes on the board's choice of independent, external auditor.").

<sup>34</sup> Katherine D. Drake et al., Have Critical Audit Matter Disclosures Indirectly Benefitted Investors by Constraining Earnings Management? Evidence from Tax Accounts 21 (May 20, 2020), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3606701](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3606701).

the Internal Revenue Service on tax related CAMs.<sup>35</sup> In any event, the research findings may be particularly significant since tax related CAMs are one of the fourth most occurring CAMs to date.<sup>36</sup> This particular benefit from CAMs is also timely given the SEC Chief Accountant's recent comments about the importance of required disclosures of judgments and estimates in a number of areas, including income taxes.<sup>37</sup>

*Improved internal control over financial reporting*

CII believes CAM communications have improved internal control over financial reporting. For example, the report referenced previously analyzing data from a survey of corporate officials found that 62% of audit committees have identified and are adding internal controls over financial reporting or are considering such changes.<sup>38</sup> These improvements are noteworthy given the recent SEC guidance that “suggests, it may be prudent to review and, if necessary, strengthen internal controls over financial reporting.”<sup>39</sup>

**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?<sup>40</sup>**

As indicated in response to question 1, CII staff has read more than 190 CAMs. The CAMs we found most useful were generally those that provided information that was clearly responsive to each of the four requirements of the PCAOB standard<sup>41</sup> and were generally

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<sup>35</sup> See Emily L. Foster, Management's Tax Judgments Flagged by Auditors, Taxnotes (Feb. 24, 2020), <https://www.taxnotes.com/tax-notes-today-federal/corporate-taxation/managements-tax-judgments-flagged-auditors/2020/02/24/2c617> (“Income-tax-related critical matters identified by public accounting firms could be something the SEC and IRS already focus on when reviewing corporations’ financial statements and income taxes, or that the PCAOB has considered in its inspections of the firms’ audits.”).

<sup>36</sup> Jessica McKean et al., An update on CAMs, Audit Analytics (May 19, 2020), <https://blog.auditanalytics.com/an-update-on-cams/> (income taxes accounts for 349 CAMs or 9.4% of all CAMs to-date, which is surpassed only by structure event (542/14.6%), revenue (559/15%), and intangible assets (616/16.6%)).

<sup>37</sup> Sagar Teotia, Chief Accountant, Statement on the Importance of High-Quality Financial Reporting in Light of the Significant Impacts of COVID-19 (Apr. 3, 2020), <https://www.sec.gov/news/public-statement/statement-teotia-financial-reporting-covid-19-2020-04-03> (“Some of the many accounting areas that may involve significant judgments and estimates in light of the evolving status of COVID-19 include, but are not limited to: . . . Income taxes [and] . . . [w]e stress the importance of required disclosures of judgments and estimates in these and other areas.”).

<sup>38</sup> See Marc Butler et al., Critical Audit Matters: Public Company Adaption to Enhanced Auditor Reporting, Intelligize at 4 (“43% of audit committees identified additional controls that required implementation, while an additional 19% are still considering such changes”).

<sup>39</sup> John C. Grugan et al., Accounting Compliance is Key for Public Companies, Bloomberg.gov (June 2, 2020) (on file with CII).

<sup>40</sup> Public Company Accounting Oversight Board, Request for Comment, Interim Analysis of Critical Audit Matter Requirements at 3 (emphasis added).

<sup>41</sup> See *id.* at A1 – 8-9 (The new CAMs requirements explicitly provide that for each critical audit matter communicated in the auditor's report, the auditor must: (1) Identify the critical audit matter; (2) Describe the principal considerations that led the auditor to determine that the matter is a critical audit matter; (3) Describe how the critical audit matter was addressed in the audit; and (4) Refer to the relevant financial statement accounts or disclosures that relate to the critical audit matter.).

more robust and granular than the other CAMs reviewed on the same topics.<sup>42</sup> In addition, as indicated in response to question 2, we believe CAMs that address CAEs and topics related to income taxes are likely to be found more useful by investors.

Another topic that is likely to resonate with many investors are environmental related CAMs.<sup>43</sup> With the growing momentum for environmental, social, and governance themes, CAM environmental related disclosures<sup>44</sup> may provide investors with a lens into an important governance dimension that also have implications for proxy voting decisions.<sup>45</sup>

Unfortunately, the quality of the CAMs that CII staff has reviewed were “uneven” because all of them failed to include the critical auditor insights that we believe would provide considerable value to investors.<sup>46</sup> As explained in my remarks before the SEC Investor Advisory Committee (IAC) in February:

I found that many of the [CAMs] . . . provided a robust and useful description in response to three of the four CAM requirements. The one common failure in the reports was in response to the requirement to describe how the CAM was addressed in the audit.

. . . [T]he PCAOB’s standard provides that:

In describing how the critical audit matter was addressed in the audit, the auditor may describe: (1) the auditor’s response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter, or some combination of these elements.

I believe more can and should be done to encourage auditors *to provide more information about the outcome of audit procedures and key observations . . . .*

For example, the audit report for CDK Global, Inc., which identified revenue recognition for the company’s customer contracts as a CAM described the audit

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<sup>42</sup> See Jeff Mahoney, CII Research and Education Fund, Critical Audit Matters Reporting: A First Look at 6 (The three CAM topics CII staff reviewed were (1) goodwill and intangible assets; (2) revenue; and (3) taxes, and the staff opined that the examples reviewed and illustrated in the CII Research and Educational Fund report “appeared to be generally more robust and granular for the topic selected than the CAMs of many other companies for that topic.”).

<sup>43</sup> See Todd Castagno, et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night at 2 (“We expect these new disclosures will resonate with ESG-oriented investors.”).

<sup>44</sup> See Jessica McKean et al., An update on CAMs, Audit Analytics (noting that there were 21 or 0.6% of CAMs to date that reference the environment).

<sup>45</sup> See Todd Castagno, et al., Morgan Stanley, Research, Global Valuation, Accounting and Tax (GVAT), North America, What’s Keeping The Auditor Up at Night at 2 (“Market participants are increasingly focusing on ESG themes and this new disclosure provides a lens into an important governance dimension.”).

<sup>46</sup> See Covington, Trends in Initial Reporting of Critical Audit Matters at 3 (“The descriptions of CAMs in audit reports are uneven”).



procedures for those contracts, including the testing, evaluation, and confirmation of a sample of the contracts.

However, the CDK Global, Inc. auditor's report, like the other reports reviewed, stopped short of explaining the outcome or key observations from conducting the audit procedures described.

*And those explanations were the types of disclosures requested by investors during the development of the standard.*<sup>47</sup>

CII wishes to emphasize that the CII-REF Report referenced in my IAC remarks concludes by offering some suggested text that could be added to the CAM examples analyzed to illustrate the type of information that could make CAMs more useful to investors.<sup>48</sup> The general wording recommended was derived, in part, from language that has appeared in recent audit reports for companies in the United Kingdom<sup>49</sup> in compliance with the "Key Audit Matters"<sup>50</sup> counterpart to the CAM requirements.<sup>51</sup> We continue to believe these illustrations may be helpful to the PCAOB and auditors in considering how CAM disclosures can be improved and presented in a manner that is both consistent with the existing requirements and more useful to investors.<sup>52</sup>

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<sup>47</sup> Jeffrey P. Mahoney, General Counsel, CII, Remarks at the SEC IAC at 4-5 (Feb. 27, 2020) (emphasis added & footnotes omitted),

[https://www.cii.org/files/issues\\_and\\_advocacy/correspondence/2020/IAC%20JPM%20Remarks%20Final.pdf](https://www.cii.org/files/issues_and_advocacy/correspondence/2020/IAC%20JPM%20Remarks%20Final.pdf).

<sup>48</sup> Jeff Mahoney, CII Research and Education Fund, Critical Audit Matters Reporting: A First Look at 23-24 (The examples are for the CAMs of CDK Global Inc., Nutanix, Inc., Cardinal Health, Inc., and Microsoft.).

<sup>49</sup> See Sports Direct International PLC, Annual Report & Accounts 2019 at 82 (July 2019),

<https://www.sportsdirectplc.com/~media/Files/S/Sports-Direct/annual-report/annual-report-2019-final.pdf>; G4S

PLC, Integrated Report and Accounts 2018 at 135-136 (Mar. 2019), <https://www.g4s.com/~media/g4s/global/files/annual-reports/integrated-report-extracts-2018/g4s-full-integrated-report-2018.ashx>;

Rolls Royce Holdings PLC, 2018 Annual Report 192 (Feb. 2019), <https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>;

Rio Tinto, 2018 Annual Report 257-58 (Feb. 2019), <file:///C:/Users/jeff.mahoney/Downloads/RT-Annual-report-2018.pdf>.

<sup>50</sup> See ISA (UK) 701 Communicating Key Audit Matters in the Independent Auditor's Report (June 2016), [https://www.frc.org.uk/getattachment/b250cf61-407f-4b1e-9f1c-e959174e1426/ISA-\(UK\)-701\\_final.pdf](https://www.frc.org.uk/getattachment/b250cf61-407f-4b1e-9f1c-e959174e1426/ISA-(UK)-701_final.pdf).

<sup>51</sup> See Jeff Mahoney, CII Research and Education Fund, Critical Audit Matters Reporting: A First Look at 22-23

("The general wording suggested was derived, in part, from language that has appeared in recent audit reports for companies in the United Kingdom (UK) in compliance with the "Key Audit Matters" counterpart to CAMs and other language considered, but not adopted, by the PCAOB.").

<sup>52</sup> *Id.* at 23 ("Among other potential uses, this type of additional information over time would assist institutional investors in making proxy voting decisions, including ratification of the appointment of auditors and the election of audit committee chairs and members.").

We hope that these comments add insight to the PCAOB's interim analysis. Please contact me with any questions.

Sincerely,

A handwritten signature in black ink that reads "Jeff Mahoney". The signature is written in a cursive style with a large, stylized "J" and "M".

Jeffrey P. Mahoney  
General Counsel