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Significant Changes to the Auditor's Report Considered by the PCAOB at Open Meeting

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Six years after the initial concept release, the PCAOB announced that it will hold an open meeting next Thursday, June 1, to consider adopting standards on the auditor's report and proposing updated requirements for auditing accounting estimates and an auditor's use of the work of specialists.

In 2013, the PCAOB proposed rules to require the inclusion of critical audit matters (CAM) in the auditor's report. After a public comment period and several roundtables that criticized the overly broad scope of CAM, the rule was repurposed in May 2016, as we described here.

The 2016 proposal modified the prior definition of CAM by adding a materiality standard, limiting the source of potential CAM and narrowing the definition. CAM are any matters arising from the audit of the financial statements communicated, or required to be communicated, to the audit committee and that: (a) relate to accounts or disclosures that are material to the financial statements and (b) involve especially challenging, subjective or complex auditor judgment, for which the auditor would take into account factors such as the auditor's assessment of the risk of material misstatement.

While acknowledging the possibility that an auditor's report may not identify any CAM, the PCAOB Board had previously stated that it would expect that at least one would be disclosed in most audits. The auditor's report would then identify the CAM, describe the considerations that led the auditor to determine that the matter constituted CAM, how that was addressed in the audit and refer to the relevant financial statement accounts and disclosure.

Under the proposal, the report would also require disclosure of the auditor's tenure.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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