

A nighttime photograph of a city skyline, likely Hong Kong, featuring prominent skyscrapers like the Bank of China Tower. The foreground shows a road with long-exposure light trails from cars, creating streaks of red and white. The sky is dark, and the buildings are brightly lit with various colors.

The Future of Auditor Reporting is Here

The auditor's report on public company financial statements is about to reflect substantive changes.

To the Point

A new PCAOB auditing [standard](#) and related amendments, approved by the SEC on October 23, 2017, addresses new required disclosures relative to Critical Audit Matters (CAMs), auditor tenure, and a statement on independence, among other changes to the auditor's report.

Applies to audits of public companies – both large and small.¹

¹ AS 3101 excludes the communication of CAMs for audits of brokers and dealers; investment companies other than business development companies; employee stock purchase, savings, and similar plans; and emerging growth companies.

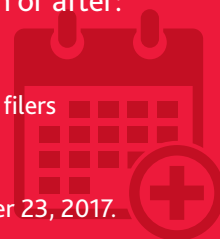


BDO INSIGHT: The new PCAOB auditor reporting standard is the first significant change to the U.S. auditor's report in over 70 years and follows the recent initiatives internationally to provide transparency into the audit.

PHASING IN REQUIREMENTS / For fiscal years ending on or after:

- ▶ **12/15/2017:** Report format, tenure, and other information
- ▶ **6/30/2019:** Communication of CAMs for audits of large accelerated filers
- ▶ **12/15/2020:** Communication of CAMs for audits of all other filers¹

Early adoption permitted after SEC approval of final standard on October 23, 2017.



The Auditor's Report: Similar But Different

The PCAOB has spent seven years and addressed close to 500 [comment letters](#) from companies, audit firms, and investors in developing the new standard that provides additional information investors have been requesting without otherwise modifying the auditor's opinion on the financial statements as a whole. The pass/ fail opinion, which investors value, is retained in the new standard.

BDO INSIGHT: Through comment letters and other forums - users of financial statements have emphasized the importance of retaining the pass fail opinion as essential to their decision making about a company. The result is now an auditor's report that requires the opinion to be the first paragraph followed directly by the basis for opinion. The communication of CAMs, when applicable, would follow those sections.

REPORTING RAISES THE BAR

While the "pass/fail" model is retained, the new report includes a revised format and enhanced disclosures, specifically audit tenure and required communication of CAMs.



Auditor's Report as a Focus for Discussion with Audit Committees

While CAMs will result from the nature of communications that are already occurring with the audit committee, the auditor is now required to provide to and discuss with the audit committee a draft of the auditor's report prior to release.

BDO INSIGHT: With the introduction of CAMs, the audit report will provide information that had not previously been provided to investors and its form and content remains the responsibility of the auditor. While the new standard requires the auditor to discuss the report, which would include the treatment of any sensitive information, with the audit committee prior to release, it is anticipated that communication with the audit committee regarding potential CAMs will occur throughout the audit.



Original Information – To Disclose or Not Disclose

When describing CAMs in the auditor's report, the auditor is not expected to provide original information unless it is necessary to describe the principal considerations that led the auditor to determine that a matter is a CAM or how the matter was addressed in the audit.

BDO INSIGHT: The expectation is that auditors will generally be able to adequately convey the principal considerations and how the auditor addressed them in describing CAMs without including information that has not already been disclosed by management. However, in the rare instance where this is not the case, auditor reporting of original information would be limited to areas within the perspective of the auditor.



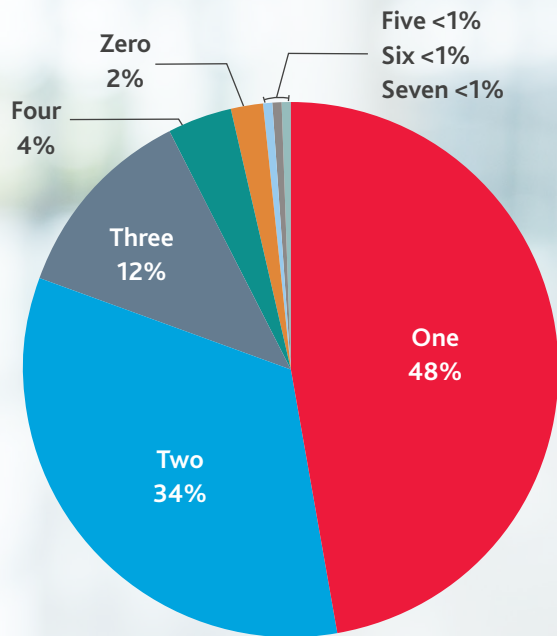
How Many CAMs and Where Do They Occur?

While the number of CAMs will vary for each audit engagement, it is expected that most auditor reports will have at least one CAM. A lengthy list of matters, however, could detract from the intent of communicating CAMs.

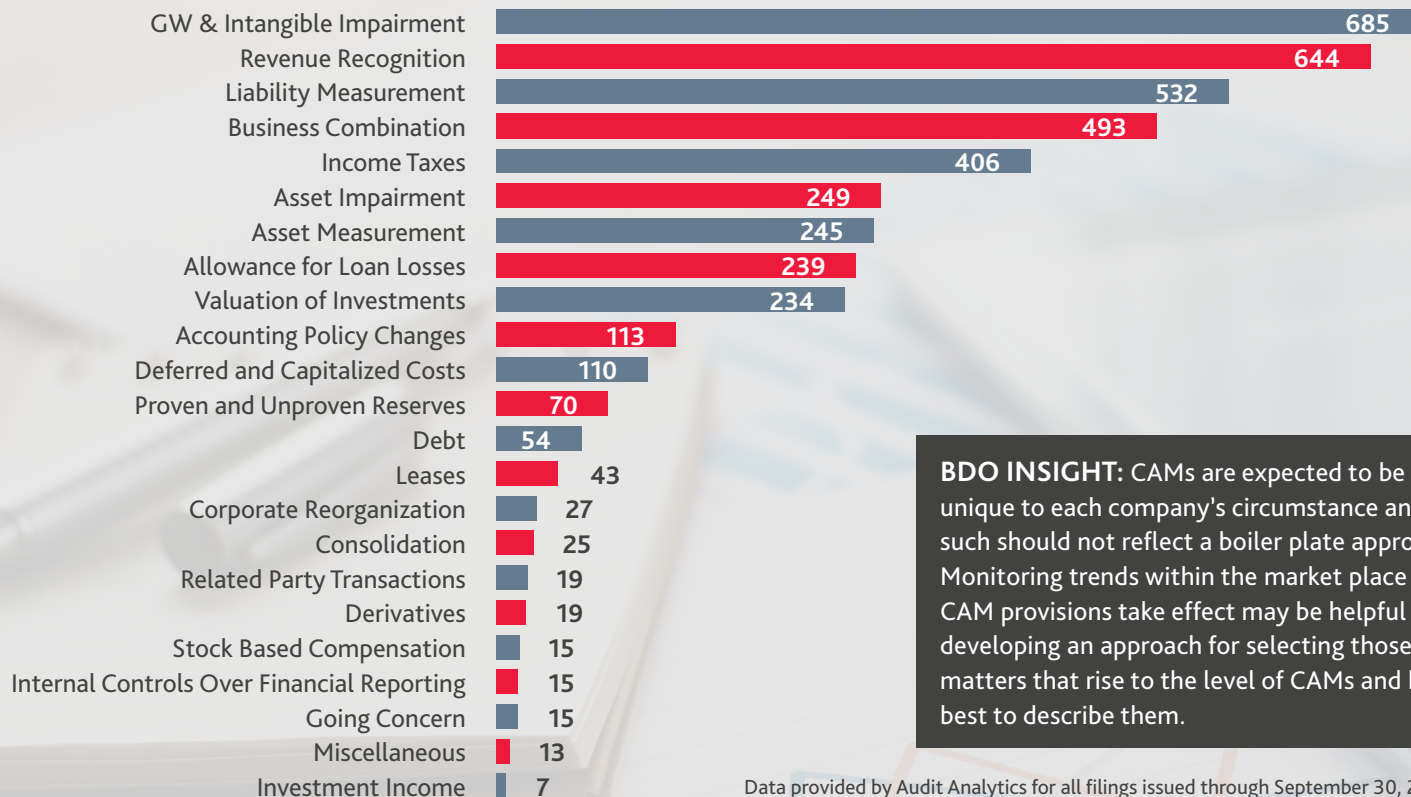
It has quickly become clear that there is not a set number of CAMs that exists in a given industry or type or size of a company. The chart to the right and on the next page show the number and nature of CAMs identified for all filings through September 30, 2020 (data provided by Audit Analytics).

BDO INSIGHT: Audit reports have long contained wording that did not vary much or at all across audit firms, industries, or companies. Significant auditor judgment will be required from company to company and year to year to identify and critically evaluate matters rising to the level of CAMs and discuss in the auditor's report the principal considerations that led to the matter being identified as a CAM and the audit procedures performed to address those considerations.

CAMS PER REPORT



Distribution of CAMs by Topic



BDO INSIGHT: CAMs are expected to be unique to each company's circumstance and as such should not reflect a boiler plate approach. Monitoring trends within the market place as CAM provisions take effect may be helpful in developing an approach for selecting those matters that rise to the level of CAMs and how best to describe them.

Data provided by Audit Analytics for all filings issued through September 30, 2020.

Next Steps?

Ensure AS 3101, and CAMs in particular for all Company's to which the CAM provisions apply, is a part of your current audit planning and wrap up discussions to raise awareness and assess potential impacts.

BDO will continue to monitor the evolution of AS 3101, along with similar ISAs, to provide timely insight and learning opportunities to our professionals, clients, and contacts.



EDUCATING YOURSELVES / BDO helps you stay up to speed as new regulations are released.

- ▶ [Auditor Reporting](#)
- ▶ [BDO Center for Corporate Governance and Financial Reporting](#)





BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 740 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2020 BDO USA, LLP. All rights reserved.

