

## CLIENT MEMORANDUM

# PCAOB Issues Standard Requiring Disclosure Regarding “Challenging, Subjective, or Complex” Auditor Judgments

June 8, 2017

## AUTHOR

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Last Thursday, the Public Company Accounting Oversight Board issued a new standard that is being described as the most significant rewrite of an auditor’s standard form of report in the last 70 years.

The standard calls for auditors to disclose certain kinds of issues – termed “critical audit matters” – that they encounter in the course of their audits. Such “critical audit matters” are defined as issues that were (or were required to be) communicated to the audit committee involving “especially challenging, subjective, or complex auditor judgment” regarding material accounts or disclosures.

Preparation of the standard has been in the works for years. The background includes reported investor discontent with the “pass/fail” model of a standard audit report and a view that audit reports should be doing more to reduce “information asymmetry” between investors and auditors.

Insofar as disclosure can be triggered by auditor communication with the audit committee, one question is whether the new standard may actually operate to influence the nature of auditor and audit committee dialogue. Audit committee members were reported to have generally opposed the proposal.

The new standard includes additional requirements such as new disclosures regarding auditor tenure and independence.

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The standard is generally to apply to audits conducted under PCAOB standards though exceptions to the new reporting requirements regarding critical audit matters are made as to certain brokers and dealers, investment companies other than business development companies, benefit plans, and emerging growth companies.

The PCAOB is adopting a phased approach to the effective dates with provisions related to critical audit matters to take effect for audits of fiscal years ending on or after June 30, 2019 for large accelerated filers and for fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply. All provisions other than those related to critical audit matters are to take effect for audits of fiscal years ending on or after December 15, 2017.

The standard is subject to approval by the SEC. PCAOB Chairman James Doty has indicated an expectation that SEC approval will be forthcoming.

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If you have any questions regarding this memorandum, please contact Michael R. Young (212-728-8280, myoung@willkie.com) or the Willkie attorney with whom you regularly work.

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