

STANDARDIZING CRITICAL AUDIT MATTERS' TITLES: EXPERIENCE FROM THREE YEARS OF IMPLEMENTATION

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ABSTRACT

The introduction of the Critical Audit Matters (CAM) standard by the Public Company Accounting Oversight Board (PCAOB) in 2017 marked a significant change in the audit profession. The goal of the new standard was to enrich the information value of audit reports for publicly traded companies audit. However, the enriched information provided by the new requirement came at a price. There are costs incurred by audit firms to design and implement CAM procedures that identify accounts or disclosures that are material to the financial statements and involve challenging, subjective, or complex judgment. The PCAOB did not provide a comprehensive list of what might comprise a critical matter. Auditors were expected to use their professional judgment to determine what constitutes a critical audit matter based on the PCAOB standards. Over the last three years, audit firms developed a significant number of inconsistent CAMs in their audit reports. Even though not consistent, many of the CAM titles meant the same matter across different audits. This study proposes the use of a set of CAM titles that represent the most extensively disclosed CAM titles since the time the PCAOB standard was implemented.

Keywords: Audit, Critical Audit Matters, Professional Judgment.