Old Institutions, New Report:

Auditors' Experiences Implementing Critical Audit Matter Reporting

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Abstract: The PCAOB introduced critical audit matter (CAM) reporting to make the audit report engagement-specific, thereby enhancing its usefulness to financial statement users. We investigate how auditors navigate institutional pressures in their CAM implementation, how they become comfortable that their CAMs will not alienate clients or attract negative attention from the PCAOB or audit report users, and how auditors view the outcomes of their CAM processes. We gathered data from 30 current audit partners, directors, and senior managers, and evaluated PCAOB standard-setting documents. We find that auditors and their firms expended considerable resources to develop and implement best practices around CAM reporting, but overwhelming pressure to mimic others’ CAM choices to avoid drawing PCAOB scrutiny gave rise to informal rules of thumb that prioritize achieving symbolic comfort with CAMs over substantive efforts. As a result, auditors are skeptical that CAM reporting will achieve regulators’ objectives. Our study provides insight into how and why CAM outcomes are misaligned with the PCAOB’s objectives and suggests potential avenues to move CAM reporting closer to the PCAOB’s original intent to increase the usefulness of the audit report.

JEL codes: B52; M41; M42; M48

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1. Introduction

With the introduction of Critical Audit Matter (CAM) reporting in 2019, the Public Company Accounting Oversight Board (PCAOB) transformed the audit report from a binary pass/fail opinion using standardized language to include engagement-specific information in the auditor's own words. In CAM reports, auditors describe their most significant challenges and explain how the audit addresses them (AS 3101, PCAOB [2017a]).[1] CAMs mark the first significant change in the audit reporting model in over 70 years. The PCAOB intends that CAMs "make the auditor's report more relevant, useful, and informative to investors and other financial statement users" by requiring engagement-specific details in place of boilerplate language (Doty [2017]). The purpose of our study is to investigate three research questions. First, how did auditors implement CAM reporting? Second, how do auditors produce comfort with CAMs? Third, how do auditors view the outcomes of their CAM processes?

We motivate our investigation within the context of archival research suggesting that CAM reports are not decision-useful to investors (Burke et al. [2022], Gutierrez et al. [2018], Lennox et al. [2022]) and experimental research suggesting that investors interpret CAMs inconsistently (Rapley et al. [2021], Christensen et al. [2014], Kelton and Montague [2018]). These findings reflect the risk that auditing standards may not always have their intended effects (Hecimovic et al. [2009], Griffith and Hammersley [2022]). This risk is especially grave in the CAMs setting, where efforts to report engagement-specific information are pitted against decades of institutional

[1] Other jurisdictions similarly require expanded audit reports, including the UK's 2013 adoption of risk of material misstatement disclosures, France's 2003 introduction of justification of assessment disclosures, and the International Auditing and Assurance Standards Board's 2017 key audit matter standards. For ease of reading and because these standards are similar in nature, we use the term "CAMs" to refer to all forms of expanded audit reporting throughout this manuscript, as we report US data.

pressure towards standardization (Dirsmith et al. [1997]). Understanding how auditors implement CAMs can reveal whether and why CAM outcomes are misaligned with the PCAOB's objectives and suggest potential avenues for realignment.

Our investigation is founded on theories of auditor comfort and institutional change. Auditors issue their reports once they are comfortable that their actions provide reasonable assurance supporting their audit opinion (Pentland [1993]). This comfort enables auditors to feel confident that they are unlikely to face negative inspection or litigation outcomes, alienate their clients, or draw negative investor scrutiny. Auditor comfort may derive from substantive effort (e.g., consulting the quality review partner about a difficult CAM decision) or from symbolic actions (e.g., copying wording from the audit firm's past CAMs rather than prioritizing engagement-specific reporting) (Gendron and Bedard [2006], Guenin-Paracini et al. [2014]).

CAM reporting is an institutional shock that requires auditors to implement new audit reporting practices to achieve legitimacy (Scott [2005]). A shock interrupts existing rituals, and new practices within and across organizations subsequently converge to achieve legitimacy through a process called isomorphism (DiMaggio and Powell [1983]). Isomorphism can be normative (observing others to inform one's own best practices), mimetic (imitating others' practices without assessing their effects), or coercive (responding to an authoritative source) (DiMaggio and Powell [1983]). Isomorphism can result in homogeneous but not necessarily effective practices (Zucker [1983]). The relative strength of competing institutional pressures dictate which type(s) of isomorphism will best explain the practices that emerge as legitimate ways to produce comfort with CAMs. Understanding the roles of auditor comfort and institutional pressure in auditors' CAM practices can provide theory-based insight into whether and why CAMs yield more useful audit reports.

Field research methods provide insight into how and why phenomena occur within a specific context (Yin [2014]), particularly when real-life practices may deviate from documented processes or rules. Therefore, we examine our research questions with both semi-structured interview and experiential questionnaire data from 30 current audit partners, directors, and senior managers from the Big 4 and three other large international audit firms who were highly involved in their firms' CAM implementation. Our sample includes four partners with national leadership roles over their firms' CAM reporting. We also review exposure drafts, comment letters, and staff guidance from the PCAOB's CAM standard setting process to understand the institutional pressures surrounding CAM implementation.

Our data reveal that auditors' CAM implementation (RQ1) involved intense effort to develop best practices via engagement among audit firms and the PCAOB. Auditors piloted emerging best practices via dry runs in 2017 and 2018 before CAM adoption in 2019. The CAM workflow begins with identifying the population of potential CAMs based on conversations with the audit committee, management's financial statement footnotes, and the auditor's risk assessments. Then, auditors quickly eliminate items that do not rise to the level of significance defined in the PCAOB's CAM criteria. Auditors conduct in-depth discussions with engagement team leadership about any close calls. Auditors draft their CAMs using firm templates and writing guides, and participate in multiple rounds of national office review. Finally, auditors discuss the CAM report with management and the audit committee before issuing their opinion.

We find that auditors produce comfort with CAM reporting (RQ2) by adopting five informal "rules of thumb" that make auditors comfortable they are unlikely to be chosen for inspection, alienate their clients, or stand out to investors. The first and most important rule for producing comfort is "don't be an outlier." Auditors achieve this by ensuring their CAMs are similar to their peers' CAMs in number, topics, and wording. One key way to evade outlier status is to avoid being among the very small number of engagements that do not report any CAMs. This led to the second rule, “reporting zero CAMs is taboo,” and the third rule, “report at least one recurring CAM” to prevent having zero CAMs in the future. Auditors communicate with management and the audit committee about CAMs early and often to ensure there are “no surprises for the client” (the fourth rule). This gives management ample opportunity to change their own financial statement disclosures to ensure that CAMs contain “no surprises for audit report users” (the fifth rule). Collectively, these rules illustrate that while auditors’ formal CAM implementation strategies were aimed at deploying best practices, the informal rules legitimized during the first year of implementation prioritized symbolic comfort over substantive comfort.

Our data reveal a contradiction between auditors’ comfort with CAMs and their views of CAM usefulness (RQ3). We find that participants are comfortable that their CAM reports satisfy standards and have few concerns that CAMs could result in negative inspection, liability, or career outcomes. However, participants are skeptical that CAMs increase the usefulness of the audit report as the PCAOB intends. This skepticism is based on auditors’ beliefs that CAMs are redundant to managements’ disclosures, that requiring at least one CAM dilutes their importance and makes it difficult to distinguish straightforward audits from especially challenging audits, and that the emphasis on consistency within and across firms impedes engagement-specific CAM reporting. Accordingly, even highly experienced auditors struggle to articulate what high-quality CAM content entails. It is unlikely that the PCAOB can course-correct CAMs’ trajectory through inspections alone, as the common deficiencies in the PCAOB’s 2020 inspection findings are already auditor priorities (PCAOB [2021]). Our results instead suggest that institutional change to reduce mimetic pressure within and across audit firms and alternative forms of coercive pressure from the PCAOB may be necessary for CAM reporting to realign with the PCAOB’s intent.

Our research contributes to regulation, research, and practice. First, auditors' perspectives about CAMs provide insight useful in evaluating the root causes of whether and why the new audit reporting model falls short of its objectives. We find that auditors face great pressure to imitate others' CAM practices and observe that PCAOB actions around CAMs exerted coercive pressure misaligned with its goal of increasing the usefulness of the audit report. Collectively, these institutional forces legitimize CAM practices that provide auditors with symbolic comfort through standardization (i.e., the five rules we document). Consequently, auditors ultimately view CAMs as not particularly useful to investors despite the considerable resources they expended to educate clients, develop methodology, train personnel, and engage in systematic national-office review. In sum, our analysis suggests that a lack of broad-based institutional change accompanying expanded audit reporting yields a new audit report that simultaneously satisfies the requirements of the standard yet fails to achieve its objectives.

Second, our study contributes to understanding how auditors implement new standards, including how auditors may respond to regulatory changes designed to move CAM reporting closer to the PCAOB's original intent. A positive takeaway from our findings is that auditors are highly motivated to comply with AS 3101 despite their misgivings about its usefulness. Therefore, the onus for improving audit processes appears to rest disproportionately with the regulator in drafting effective standards and providing implementation guidance aligned with their goals. These insights suggest great potential to shift auditors' CAM practices toward the PCAOB's original intent, for example by refocusing standards, guidance, and inspections to incentivize engagement-specific reporting and reduce the perceived risks of being an outlier. Audit firms and teams can also consider ways to relieve the pressure to conform and instead prioritize substantive comfort. These insights also inform our understanding of how the profession can best approach future changes to auditing standards, such as the new standard for firm-wide quality control systems currently in process (PCAOB [2019d]).

Finally, understanding how auditors produce CAM disclosures is foundational to high-quality research about those disclosures, making our study deeply relevant to archival and experimental CAMs research. Experimental research can leverage our detailed description and theoretical understanding of the CAM reporting process to design and test interventions that may increase CAMs' usefulness. Because our study identifies auditors' decisions, goals, and concerns underlying a publicly observable outcome and examines the institutional forces that influence those decisions, archival research can capitalize on a deeper understanding of auditors' CAM reporting processes when developing theory and research designs. For example, our findings with respect to the dominance of symbolic comfort in CAM reporting suggest a potential mechanism underlying archival evidence that CAMs, on average, are not associated with user decision making (Bédard et al. [2019], Gutierrez et al. [2018], Lennox et al. [2022], Liao et al. [2022]). Further, our finding that auditors encouraged management to consider changes to their disclosures around CAM-related accounts triangulates archival findings in Burke et al. [2022] and Drake et al. [2022].

2. Background and Theory

2.1 CRITICAL AUDIT MATTERS

AS 3101 requires auditors to report the most challenging matters(s) from the audit and describe the procedures they employed to address those matters. Auditors identify these CAMs based on their discussions with the audit committee, and they include significant risks, judgments, transactions, and estimates. CAMs must relate to material accounts or disclosures in the financial statements (PCAOB [2017a]), and they do not modify or disclaim the audit opinion.[2] The PCAOB

[2] The International Auditing and Assurance Standards Board (IAASB) adopted Key Audit Matter (KAM) reporting standards effective 2017. KAMs are similar to CAMs in most respects, with the exception that they are not required

issued AS 3101 in 2017 and mandated CAM reporting for large accelerated filers beginning in June of 2019 and for other filers in December of 2020.

The PCAOB introduced CAM reporting to respond to investors' demand for engagement-specific information about a company's audit in the audit report:

> As part of the audit, auditors often perform procedures involving challenging, subjective, or complex judgments, but the auditor's report does not communicate this information to investors. 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. (PCAOB [2017b, 2])

The PCAOB intends that providing engagement-specific information about the audit via CAMs will enhance the usefulness of the audit report (Doty [2017]).

Existing research raises doubts as to whether the new audit reporting model achieves the PCAOB's objectives. Most archival research finds that CAMs are not associated with investor reactions or audit fees (Gutierrez et al. [2018], Bédard et al. [2019], Lennox et al. [2022]**)** but are associated with changes in managements' disclosures and the purchase of non-audit services (Burke et al. [2022], Lynch et al. [2022], Drake et al. [2022]). However, experimental research finds that CAMs can affect investment intentions (Christensen et al. [2014], Kelton and Montague [2018], Dennis et al. [2019], Rapley et al. [2019], Elliott et al. [2020]) and assessments of auditor negligence (Brasel et al. [2016], Gimbar et al. [2016], Vinson et al. [2019], Brown et al. [2020], Kachelmeier et al. [2020]). Further, preliminary qualitative data about eight auditors' experiences suggest auditors implemented CAMs smoothly (Dannemiller et al. [2022]).

An important limitation of the emerging literature on CAMs is that we know little about the processes by which auditors implement the new standard, which impedes researchers' ability

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to be related to material financial statement items (i.e., a challenging matter related to audit scoping decisions could potentially be a KAM but not a CAM) (ISA 701, IAASB [2016]). For ease of understanding, we use the term "CAMs" to refer to both KAMs and CAMs when reviewing existing literature on expanded audit reporting.

to reconcile these disparate findings. Two studies that move closer to shedding light on how auditors produce CAMs, Rousseau and Zehms [2022] and Rousseau [2022], show that audit partners and audit committees, respectively, exhibit individualized CAM reporting patterns. This implies the importance of individual decision makers in the production of CAMs. We seek direct input from highly experienced auditors to gain insight into their implementation processes:

RQ1: How did auditors implement CAM reporting?

2.2 THEORY

2.2.1 Auditors and the Production of Comfort

Given the uncertainty inherent in providing reasonable assurance, auditors in the field seek a sense of "comfort" that the financial statements are not materially misstated (Pentland [1993]). Comfort is an emotional state that arises from auditors' beliefs that their actions validate their audit opinion (Pentland [1993]). As such, auditors can achieve comfort through substantive or symbolic actions (Gendron and Bedard [2006], Guenin-Paracini et al. [2014]). Auditors' substantive actions include using their expertise and their firms' methodology, workflows, and specialists to gather evidence and prepare an appropriate audit report (Jenkins et al. [2018]). Symbolic actions include ritualistic behaviors that do not ultimately support the audit report (Pentland [1993]). For example, a deeply embedded auditing ritual involves working long hours with few breaks, even when doing so is unnecessary (e.g., no urgent deadline), which leads Pentland [1993, 618] to conclude that the "production of comfort in audit work rests not so much on the careful exercise of judgment as on the relentless application of effort." A pervasive source of comfort is the standardization of audit practices, which is integral to audit firms' ability to provide uniform audit quality across engagements (Dirsmith et al. [1997], Dirsmith et al. [2015]).

Before CAMs, auditors could comfortably communicate their audit findings using standard language. Auditing standards, audit firms' formal policies, and norms of auditor behavior have evolved based on the idea that the legitimate way to produce an audit report is to look outside the engagement team – either to PCAOB standards or to audit firm guidance – for the prescribed language appropriate to the audit opinion being issued. Under the old reporting model, it was well-accepted – by auditors, regulators, clients, and financial statement users – that audit reports are almost all identical. Now that CAMs require auditors to write engagement-specific audit reports, auditors will have to change their substantive approach, apply their existing symbolic rituals, and/or develop new rituals to produce comfort with CAMs.

2.2.2 Institutional Pressures and Change in Audit Practices

Auditors using standardized practices and audit report language to achieve comfort is consistent with the idea that institutional pressures often lead to the convergence of practices across a profession (Meyer and Rowan [1977]). Institutional theory examines how accepted structures, behavior, and practices within organizations arise, disseminate, and change over time (Scott [2005]) and is a useful theoretical lens for understanding accounting and auditing practices (e.g., Hayne and Vance [2019], Griffith et al. [2015]). Organizations adopt practices that involve both symbolic meanings and implemental actions to portray conformance with societal values, thereby achieving legitimacy and increasing their survival prospects (Parsons [1956], [1960], Meyer and Rowan [1977]). Environmental shocks such as CAM adoption can prompt organizational change by raising questions about the legitimacy of current practices; regulatory changes by a state actor such as the PCAOB are "explicitly considered deinstitutionalizing…since any use of sanctions indicates that other attractive alternatives exist" (Zucker [1987, 444]).

Organizations respond to environmental shocks in ways that establish or enhance their legitimacy. Auditors' implementation of AS 3101 is an especially good setting in which to observe the translation of auditing standards into practice (Cooper and Robson [2006]), because auditors have no existing legitimized practices to draw from as they begin to issue engagement-specific disclosures. Thus, they face pressure to develop new practices rather than borrowing legitimized practices from a superficially similar task (e.g., Griffith et al. [2015]).

Isomorphism, the phenomenon by which organizations adopt converging practices to achieve legitimacy, can take one or more of three overlapping forms: normative, mimetic, or coercive. Normative isomorphism occurs when organizations and the individuals within them adopt similar practices over time as they observe each other to inform their own approaches (DiMaggio and Powell [1983], Fournier [1999]). In the case of new regulation, normative isomorphism positions firms to converge upon common best practices that they develop from the ground up and through consultation within and among firms (DiMaggio and Powell [1983]). Mimetic isomorphism occurs when organizations and individuals facing uncertainty about how to achieve legitimacy imitate each other, resulting in homogeneous – but not necessarily effective – legitimized practices (DiMaggio and Powell [1983], Griffith et al. [2015]). Coercive isomorphism occurs when organizations and individuals respond to pressure from an authoritative source such as government by implementing practices that the source deems legitimate (DiMaggio and Powell [1983]). Prior environmental shocks in auditing have failed to produce meaningful changes in practice because of the absence of coercive institutional pressure, which allowed mimetic isomorphism to propagate practices that, while legitimized and effective in existing domains, were ill-suited to the new environment (Griffith et al. [2015]).

2.2.3 CAMs, Comfort, and Pressure

The preceding discussion suggests that performing legitimized practices produces comfort for auditors, and that the nature of this comfort – substantive or symbolic – depends on the practices that attain legitimacy through isomorphic convergence. The practices that emerge and converge depend on the type(s) of isomorphism that arise from the existing institutional pressures. Figure 1 visually integrates the concepts of auditors' comfort-seeking with the demands of isomorphic adaptation to change in the CAMs setting.

Auditors implementing CAMs face coercive institutional pressure from the PCAOB; whether this will result in symbolic or substantive comfort-seeking depends upon the focus of the pressure. While auditors believe the PCAOB wields considerable coercive power (Johnson et al. [2019]), it is difficult to predict how auditors will interpret a new standard and whether their practices will comply with the "letter" or the "spirit" of the standard. The PCAOB provides auditors substantial latitude in deciding how to implement new standards by charging audit firms with developing implementation strategies. The PCAOB provides reactive feedback via reviews and inspections, rather than providing proactive instructions for deploying new standards (Peecher et al. [2013], PCAOB [2019c]). Auditors' interpretations of accounting and auditing standards tend to suit their own or their clients' preferences, which can undermine a standard's true intent (e.g., Hackenbrack and Nelson [1996], Kadous et al. [2003], Agoglia et al. [2011], Griffith et al. [2015]). Thus, coercive isomorphism may result in either, or both, types of comfort.

Auditors also face mimetic institutional pressures from within the audit industry. Uncertainty, such as that surrounding CAM reporting, often provokes mimetic isomorphism (DiMaggio and Powell [1983]). Because mimetic isomorphism involves copying others' practices without much regard to their intrinsic quality, the resulting legitimized practices "may only be 'trendy' and may actually…be detrimental" to an organization, consistent with symbolic comfort (Kondra and Hinings [1998, 758]). Through wide acceptance of practices within and across firms, mimetic isomorphism can legitimize symbolic practices that achieve technical compliance with the standard yet fall short of the PCAOB's objectives.

In contrast, responding to normative pressure is likely to yield substantive comfort. By engaging in behaviors that aim to achieve true 'best practices' such as researching the standard, consulting with colleagues, and leveraging their firms' resources and specialists, auditors are likely to learn of, develop, and disseminate effective practices via normative isomorphism. In this case, auditors will converge upon effective legitimized practices that produce substantive comfort. We explore how these three competing institutional forces are realized in CAM implementation:

RQ2: How do auditors produce comfort with CAMs?

Next, we examine auditors' perceptions of how effective their CAM practices are at achieving two outcomes: (1) producing auditor comfort and (2) enhancing the usefulness of the audit report as the PCAOB intended. To evaluate auditor comfort, we examine whether and to what extent participants are concerned their CAMs could result in negative PCAOB inspection, litigation, or career outcomes (e.g., alienating clients or investors, missing budgeted targets for engagement profitability, and/or receiving negative attention from audit firm management). While auditors may satisfy their need for comfort with CAMs via symbolic and/or substantive actions, substantive actions appear to be more closely aligned with the PCAOB's objective for CAM reporting. Thus, in addition to auditor comfort, we also examine auditors' beliefs about whether their CAM processes produce more useful audit reports:

RQ3: How do auditors view the outcomes of their CAM reporting processes?

3. Method

We examine our research questions via experiential questionnaires and semi-structured interviews. To inform our data collection and analysis, we examine publicly available information about the PCAOB's CAM standard setting process.[3] This review provides insight into the

[3] We review comment letters that the Big 4 firms submitted concerning the 2011 PCAOB concept release, all PCAOB releases and rule filings related to AS 3101 issued between 2011 and 2017, and PCAOB guidance related to AS 3101 issued between 2017 and 2019.

institutional pressures auditors face as they implement CAM reporting and the comfort-seeking practices auditors may view as endorsed by the PCAOB.

Participants include 30 current audit partners, directors, and senior managers from the Big 4 and three other large international audit firms who were highly involved in CAM implementation at the engagement or national office level. Table 1, Panel A reveals that participants average 22 years of audit experience, have issued CAMs for an average of three engagements, and have extensive experience with unusual transactions and complex estimates. Their perspectives allow us to "better understand [the] reality" of auditors' CAM implementation (Power and Gendron [2015, 154]), which is essential to answering our research questions. Our sample is 23 percent female, 90 percent come from Big 4 firms, and 13 percent hold a national office role related to CAMs. Participants completed the experiential questionnaire in advance of their interview, which allows us to complement our qualitative data with triangulating quantitative data and better understand the context of participants' experiences (Lillis [1999]). The mean interview (questionnaire) duration was 45 (34) minutes.[4]

We collected data between July and December of 2020.[5] This timeframe allows us to examine partners' holistic experiences in the field during the first year of CAM reporting for large accelerated filers. It further allows us to observe partners' real-time experiences with preparing to report the first CAMs for all other filers, required for fiscal years on or after December 15, 2020 (PCAOB [2017a]). We recruited participants through firms' central research contacts, personal contacts, and subsequent snowball sampling, in which we asked each participant to suggest a colleague we could speak to at the end of their interview (Malsch and Salterio [2016]).

[4] Mean survey completion time excludes three outlier participants who had the survey open for more than eight hours, indicating they did not complete the survey in one sitting.
[5] We obtained Institutional Review Board approval for all aspects of the study involving human subjects.

Once we identified a participant, we initiated contact with an email explaining the study and containing a link to the experiential questionnaire. We used the critical incident technique, which promotes the recall of specific experiences to minimize recall bias (Flanagan [1954], Gibbins and Qu [2005]). We asked participants to "focus primarily on one client engagement that you worked on in the past year in which you had a significant role in CAM reporting decisions." We developed the questionnaire in conjunction with the interview script (described below) to collect descriptive details about participants and their CAM reporting engagements.[6] Table 1, Panel B summarizes participants' engagements, which span several industries.[7] Consistent with the first year of CAMs comprising large accelerated filers, the modal client has more than five billion dollars in revenue and total assets, and an audit fee greater than ten million dollars.

We developed the interview script based on our understanding of the CAM reporting workflow from PCAOB standards and guidance (see Figure 2) and a conceptual framework of inputs and outcomes relevant to auditors' CAM reporting decisions (see Figure 3). We derive these factors from stakeholder concerns summarized in the PCAOB's AS 3101 release document (PCAOB [2017b]) and organize them using Bonner's [2008] person, task, and environment taxonomy for judgment and decision making in accounting. We construct the questionnaire and interview script to gain insight into how auditors perform the steps in the workflow shown in Figure 2, as well as the broader context related to CAM reporting shown in Figure 3, which help us understand why auditors approach CAMs as they do. We revised the interview questions after the first four interviews to elicit salient elements of auditors' experiences not contemplated in our ex-ante frameworks (Miles and Huberman [1994]).

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[6] When interpreting the quotes in the Results section, we urge readers to refer to Table 1 for additional context about the participant giving the quote.

[7] Industries include consumer products, distribution, energy, financial services, healthcare and pharmaceuticals, manufacturing, multinational conglomerates, retail, technology and communications, and transportation and logistics.

During the interviews, we first asked participants to describe the steps in their CAM reporting process, and then proceeded to ask about auditors' goals, challenges, and CAM outcomes; the Appendix contains the interview script. We encouraged participants to elaborate when they deviated from the interview script to cover all factors participants considered important while ensuring coverage of all scripted questions (Yin [2014]). We interviewed until saturation (n = 30), when additional interviews did not yield new insights (Malsch and Salterio [2016]).[8]

To enhance the validity of participants' responses, we established trust and rapport in two ways. First, we assured participants that questionnaire and interview responses would remain confidential. Second, we began each interview by explaining the purpose of our research and inviting participants to ask questions about their participation. We then proceeded with the interview script. We audio recorded the interviews and had them professionally transcribed.

We tabulated data from the experiential questionnaire to provide descriptive statistics about our participants, the engagements they described, and their experiences implementing CAM reporting. We use these data to complement insights from the interviews with quantitative measures of frequencies and central tendencies. We coded all qualitative data using the coding scheme in the Appendix, which we developed based on the workflow and framework in Figures 2 and 3 and refined based on the interviews. Two researchers independently coded the first four transcripts and met to resolve differences and verify consistent use of the coding key. These researchers divided the remaining transcripts, independently coded them, and met to discuss ambiguous items. All researchers then met to discuss the coding to ensure a similar understanding of the data. Four topical areas emerged:

- Overall description of the CAM reporting process, such as activities and timing;

[8] Malsch and Salterio [2016] suggest that conducting 15 to 30 interviews tends to achieve saturation in qualitative audit research. To assess saturation, we examined the main themes of the later interviews and noted they were substantially the same as the themes from the earlier interviews, and no pattern emerged among deviant cases.

- Inputs auditors employ in the process, such as firm resources and consultation;
- Outcomes of the CAM reporting process, such as the number and nature of CAMs, effects on audit fees and effort, and defining high- and low-quality CAMs; and
- Auditors' assessments of the process they followed, such as challenges they encountered and goals they pursued.

While the results below primarily reflect participants' consensus views, we also conduct deviant case analysis by "searching for, analyzing, and reporting on elements of the data that…appear to contradict patterns of explanations that are emerging" (Malsch and Salterio [2016, 13]).

4. Results

4.1 HOW DID AUDITORS IMPLEMENT CAM REPORTING?

4.1.1 The Audit Profession Prepares for CAMs

The PCAOB issued AS 3101 on June 1, 2017, with CAM reporting effective for large accelerated filers in June of 2019. Some of our participants participated in CAM pilot programs as early as 2017, including determining CAMs, drafting a CAM report, and sharing the report with the audit committee. These pilots were "initiated by our national office group…that were having ongoing dialogue with the regulator and other accounting firms to develop practice aids and share thoughts" (P13).[9] These consultations are consistent with normative isomorphism: a profession working together to identify and adopt common best practices. This is in contrast to mimetic isomorphism, in which organizations do not consider the appropriateness or efficacy of the practices they adopt from other sources.

In 2018, the large accounting firms undertook broader CAM dry-run initiatives encompassing most, if not all, of their public issuers. One partner explains: "I think it was educating everyone [management and the audit committee] on why we had to do this, giving them some comfort that…they shouldn't be surprised at what we spend the most time on and we feel

[9] We attribute quotes throughout the paper to participants according to the identifiers shown in Table 1. Unless we note otherwise, quotes are representative of participants' views in general.

has a greater level of judgement and complexity" (P10). By the time CAMs were issued publicly in 2019, "what we went through in the dry run is almost identical to what we ended up communicating…other than some wording changes." In contrast, a participant from a smaller firm with few public issuers described their 2019 experience with CAM reporting: "The firm's guidance didn't exist when we did this. We were actually making it as we were doing it. So, we used every other firm's guidance, every executive summary, every PCAOB standard for quality" (P4).

In March of 2019, the PCAOB issued pre-implementation guidance reviewing the dry-run audit methodologies from 10 major public accounting firms spanning 85 percent of US issuers (PCAOB [2019c]). It is important to note that the PCAOB was not originating guidance on how to implement CAM reporting, but attempting to gain:

> …insight into how audit firms are preparing to implement the new CAM requirements and to consider how their materials are aligned with the standard and the discussion in the Board's rulemaking releases…As always, it is the responsibility of the audit firms to develop methodologies that comply with PCAOB standards. (PCAOB [2019c, 1])

This reactive approach to informing audit methodology creates space for auditors to adopt symbolic practices that produce comfort, particularly by copying each other's behavior (i.e., mimetic isomorphism) and reverting to the legitimized reporting practice of using standard language. Illustrating this tendency, the PCAOB review noted some firms' guidance should be corrected to ensure: (1) CAMs include adequate discussion of *why* a matter involved especially challenging judgement(s); (2) auditors tailor CAMs to each engagement, contrary to some firms' guidance directing auditors to include generic language about internal control testing in all CAMs; and (3) that while auditors should try to avoid being the source of non-public information, public information includes *all* publicly available information about the client, not just financial statements (PCAOB [2019c]). This guidance reflects the PCAOB's desire for engagement-specific audit reports. It is also consistent with coercive pressure, pushing auditors away from the legitimized practice of standardized reporting and toward practices that are more likely to satisfy the standard's original intent.

4.1.2 Going Live: Auditors' Processes in the First Year of CAMs

4.1.2.1 Determining CAMs. With regard to CAM workflow, participants described a "funnel" approach to determining CAMs, which they typically document in a CAM determination spreadsheet that the firm provides. The approach begins with identifying the "universe of topics that are included in discussions with the audit committee" (P16), as well as items from the auditor's risk assessment and management's footnotes. The auditor then documents their assessment of whether each matter rises to the level of a CAM with reference to the determination criteria in the PCAOB standard (See Figure 2). One partner provided estimates of the number of potential CAMs: "I think there were close to 60 that were included in our CAMs work paper…there were 15 or so we ended up looking at further once we went through all of them." The partner ultimately reported two CAMs, based on "the extent of audit procedures and judgment that went into those procedures…It did link back pretty closely to where we thought there were significant risks in the audit as well" (P2). This top-down approach to CAM determination is an example of audit firms exerting normative pressure to effectively deploy best practices. A national office partner states:

> The reality is, for many engagement teams, they don't have to do the template to know what the CAM is…you can just go start writing... But we didn't want teams to do that. We wanted to make sure they documented everything the standard required…so that it was completely analyzed, and every step was followed. (P23)

Table 2 illustrates that CAM determination starts early in the audit, with most auditors beginning to think about potential CAMs and discuss them with management and the audit committee in planning and pre-planning stages. Ninety-three percent of participants were reasonably certain they had identified their CAM topics by the interim testing phase. Table 3, Panel A presents a bar chart describing the common topics of CAMs auditors considered as potential

CAMs versus reported as CAMs. It shows that complex estimates (typically related to valuation), taxes, business combinations, and revenue recognition are the most common topics considered and reported; more CAMs on each of these topics were considered than were reported. Participants also considered issues related to fraud risk, compensation, internal control, and other matters, but were less likely to determine that these topics ultimately rise to the level of a CAM.[10]

When encountering difficult CAM determination decisions, partners describe extensive conversations with the engagement quality review partner and the importance of easy access to other resources: "I had no problem on all of my clients just picking up the phone and talking to…professional practice or other people in the industry…[such as] fellow partners that were on similar clients just to say, hey, what are you coming up with?" (P1). Another partner describes winnowing six potential CAMs down to the two they eventually reported:

> I would not have felt comfortable going with all six…We did have some data points…where engagements were at 1.85 on average…So, the fact that we were landing at two felt about right, particularly based on the nature of the other areas that we were evaluating…[The potential CAMs] just didn't hit multiple of the criteria. For example, they may have been a management estimate, but they just…weren't as material, or there wasn't a lot of difficulty in getting audit evidence, or a lot of judgments or complexity in terms of what we had to do. (P11)

Table 3, Panel B illustrates that estimation uncertainty, risk of material misstatement, use of specialists, and audit effort are the most important factors in auditors' CAM determination decisions. Table 3, Panel C shows that auditors referred extensively to audit firm training and guidance and auditing standards in making their CAM decisions.

4.1.2.2 Writing and Issuing CAMs. Once the engagement team determines the CAM topics, the drafting process begins. Participants report that senior managers or lead managers typically write the first draft, with reference to firm templates that prompt the auditor to: "First identify the

[10] These findings are consistent with large-sample archival data describing the most common CAM topics (Burke et al. 2022).

CAM in a title. Second, give background reference to relevant accounts and disclosures that relate to the CAM. Then third, the principal considerations that led to determining if it's a CAM. And last, fourth, audit response" (P18). Participants describe firm CAM drafting templates that list "key points to consider, to ensure that you're incorporating into the report language" and require details such as "how you tested controls, or if you used specialists" (P16). Partners also describe tie-out procedures associated with CAM reports to "make sure it's linked up with what disclosures exist in the financial statements" and "link back to our work papers where we're doing the testing" (P10) to "make sure that what we say we did, we did" (P1).

In addition to CAM report templates, many teams use firm-provided CAM writing guides when drafting their CAMs. One partner describes the content of their firm's writing guide:

> …the types of terminology that you can and should use versus what would be potentially presenting new information or where you would be reaching conclusions versus just describing what you did. And that probably is the most significant piece because I think our auditors are trained to write their conclusions. (P1)

Another participant, while looking at their firm's writing guide, explains: "I can't find a list of absolutely-don't-use words, but…words where we should proceed with caution. For example, we should be careful when we use the word review, because…it might be construed to mean negative assurance" (P18). These writing guides encourage auditors to describe their judgements "in words very similar to what's in the auditing standard" (P18).

After the senior manager completes the initial draft and the engagement partner reviews it, national office partner(s) with CAM expertise and industry experience begin their review. This review involves multiple rounds and encompasses both the CAM determination workpaper (i.e., completed excel template) and the draft CAM report. One national office partner reports:

> In year one, we required every engagement team that had to issue a CAM to come through national office…We looked at every single CAM issued…[to make] sure we get all the words right…in year two, we modified that guidance to say…if you did not have a significant change in your CAM year over year, you don't necessarily have to come to

> national…However, if you had a significant change to your CAM, then you would come to national again. (P23)

Another partner describes "an iterative process where [through] back and forth questions, responses, discussions, calls, you kind of fine-tuned the wording. Pretty collaborative effort, for sure, between our team and the national office group" (P6).

The first rounds of national office consultation and sign-off take place as early as the second quarter, since management and the audit committee often want to view the draft CAMs before year-end, and national review must occur before the auditor can begin sharing the draft. Some partners describe the discussion of draft CAMs with management and the audit committee as a non-event: "they may have had some slight comments, but they would have been very minor if they had any at all" (P3). Others report that "there was a lot of wordsmithing" involving "mostly management and legal counsel, but the audit committee presumably looked at it as well" (P4). After these discussions, "we did a final rewrite of them and then went through national office again before they got dropped into our report" (P8). Partners also described final procedures such as updating the CAM determination spreadsheet to include any new topics raised at recent audit committee meetings and performing final checks that the procedures described in the CAM accurately correspond to the audit workpapers.

4.1.2.3 Who produces CAMs? Table 4 describes the personnel involved in CAM reporting. Senior managers, the engagement quality review partner, and other engagement partners provide the greatest direct assistance with CAMs. Further, most CAM-related consultations take place with the engagement quality review partner or the national office. In contrast to concerns that CAMs may increase auditors' legal liability (PwC [2014]), the median participant reports no CAM consultations with the audit firms' in-house or outside legal experts.

4.1.3 Summary

The preceding description illustrates that auditors went to great lengths to develop best practices for CAM reporting in collaboration with the PCAOB and other audit firms. Audit firms made significant investments in firm-level infrastructure (e.g., training, guidance, templates, national office expertise, extensive pilots and dry runs) to support partners in the field as they implemented best practices, consistent with normative isomorphism. However, auditors' practice of comparing their CAMs to others' and taking comfort in similarities is consistent with mimetic isomorphism. The description of partners' CAM processes also reveals powerful coercive pressure from the PCAOB. Audit firms responded to this pressure with CAM determination templates that closely reflect the determination criteria in AS 3101, and CAM drafting templates and writing guides that tell auditors to follow the standard's language closely. The PCAOB review of audit firms' CAM methodology and pre-implementation guidance create additional coercive pressure.

4.2 HOW DO AUDITORS PRODUCE COMFORT WITH CAMS?

Audit institutions adapt to change by adopting practices that produce symbolic or substantive comfort with uncertain and complex judgments and reports (Power [2003], Pentland [1993]). We explore the "rules of thumb" that emerge from CAM implementation, how they help auditors produce comfort with CAMs, and whether that comfort is symbolic or substantive in nature. We identified these rules based on how many participants articulated the related theme in their interviews (see Table 5) and how often participants returned to each rule in explaining the pervasive forces influencing their CAM decisions.

4.2.1 Rule #1: Don't be an Outlier

Almost all participants (97%) identified ensuring their CAM reports are similar to others is the most pervasive factor in allowing individual auditors and their firms to produce comfort:

> All the firms were conscious about what everybody was doing, so when the CAMs started to get reported…there was a lot of data that was being distributed…How do we compare to others? …How many on average do we have? How many on average do the other firms have? We don't expect them to be the same, but we expect them, I think, to be relatively close. (P14)

Achieving this similarity is a key objective of the national office review of CAMs: "National office had seen it [CAM reporting] across multiple clients, companies, other [audit] firms, to make sure we weren't saying anything in our specific CAM that would be any sort of outlier or inconsistent with those similar topics" (P15).

Clients also do not want to be outliers. A partner reports, "Certainly our client or clients in this space will pick up and take a look at the case of their competitors or comparable size companies. And you want to just make sure that you're not an outlier" (P1). A national office partner reports that these concerns inhibit engagement-specific CAM reporting:

> I think there is an acute awareness on both the preparer and the auditor side about being a potential outlier as it relates to what one is disclosing as a CAM and what another is not…I think because of that desire to not want to be an outlier, at times people are trying to write a CAM to make it look and feel as consistent as they can with a peer when it's not directly on point. And I think you lose a little bit of transparency there. (P21)

Indeed, similarity for similarity's sake reflects mimetic isomorphism, which in this setting produces only symbolic comfort because it undermines the PCAOB's intent to create greater variation in audit reporting through engagement-specific details.

4.2.2 Rule #2: Reporting Zero CAMs is Taboo

The pressure to avoid being an outlier is particularly acute regarding the number of CAMs:

> I think the challenge was coming up with the right number that you could sort of explain to management that wasn't out of bounds within my firm, with the other firms. Especially in this year of adoption, because everyone was looking at how many do you have not necessarily what they are. (P15)

Most participants (76%) expressed the view that reporting zero CAMs is absolutely taboo: "On one of my concurring reviews, we all felt comfortable that it could have been zero [CAMs] and we ended up disclosing one to just stay out of the crosshairs of the PCAOB" (P26). A national office partner confirms:

> The most challenging CAM consults are probably the companies where there is not an obvious CAM …We have to really go through and really think through what makes sense to be the CAM. Because we do think that every engagement should have a CAM. We should not have engagements that do not have CAMs. (P23)

Several partners report that their belief an engagement could have zero CAMs was extinguished during the pilot-testing and dry run processes: "As a firm, at first it was like: 'well you could have none, you could have four'. And then, clients that were heading down the path of none, there was considerable pushback [from the audit firm]…'you should at least have one'" (P15). The timing of this shift in auditors' thinking coincides with the PCAOB's release of pre-implementation guidance for CAM reporting in March of 2019. This guidance summarizes the requirements for determining, communicating, and documenting CAMs and emphasizes that: "It is expected that, in most audits to which the CAM requirements apply, the auditor will determine at least one CAM" (PCAOB [2019a, ¶.04]). This is an example of coercive institutional pressure that is implemental (i.e., affects actions) and applied at a critical time – when auditors are seeking to legitimize their new CAM reporting practices. This pressure appears to have the unintended consequence that auditors avoid possible outlier status by reporting one to two CAMs rather than making an engagement-specific decision about whether to report a CAM. Accordingly, Burke et al. [2022] find that only 10 companies received zero CAMs in the initial year of CAM adoption.

4.2.3 Rule #3: Report at Least One Recurring CAM

Participants from three of the Big 4 audit firms report the PCAOB's expectation that auditors report at least one CAM translates into their audit firms' "expectation there would be more than zero recurring CAMs" (P7).[11] A "recurring CAM" allows auditors to avoid the risk of having zero CAMs in the future: "You didn't want to start with one or two that were one-time items and then the following year you're down to zero and now you have the PCAOB…or the SEC or whomever challenging why you would have no CAMs" (P1). One national office partner adds: "We make sure teams just don't say, 'Well, I have a non-recurring CAM, I have my CAM, move on.' Let's make sure we don't have something else that we should have in there" (P23).

Making sure to report at least one recurring CAM in the first year of CAM reporting also helps auditors avoid the risk of having to identify a new CAM in later years related to an account where there has been no change in the fact pattern:

> Nobody thinks zero is a good idea, so if you have, in year one, one CAM, but it's a nonrecurring one…then you haven't really thought it through. You end up at zero next year. So then, well, what would your new CAM be in 2020 when you didn't have that one in 2019? …Now, if you think it through appropriately, you shouldn't get there because that second-year CAM should have always been a CAM. (P8)

A partner whose firm did not employ a "one recurring CAM" strategy describes the struggle to identify a new CAM for a client that received a goodwill CAM last year, but wrote off a significant portion of that goodwill in the current year: "It's tough when the bigger areas with the judgment go away…To be honest with you, I'm not sure what our CAM is going to be this year" (P13).

4.2.4 Rule #4: No Surprises – For the Client

Participants shared that management and the audit committee were initially concerned that CAMs would contain information about the company that they preferred not to disclose: "I think that they [the client] were worried about original writing. So, this was the first time that something in the annual report was going to be outside of their control other than standard audit opinion which

[11] Recurring CAMs relate to financial statement items present every year, such as accounting for revenue recognition or inventory. Non-recurring CAMs relate to one-time or short-term events such as accounting policy changes, business combinations, and the impact of the COVID-19 pandemic (Beyer et al. [2022]).

really had never changed" (P5). However, auditors' implementation strategies resulted in the client viewing first-year CAMs as a non-event by the time they were issued publicly. A national office partner explains: "I think a lot of audit committees and management teams, maybe two, three years ago, were worried that this is going to be a lot of stuff they'd never seen before…I think the dry runs have been helpful. I'll say, it calmed a little bit of the nervousness about 'what are these things going to look like?'" (P22). Another participant adds:

> The early communications, if you're an audit committee member, you're sitting here and the message you're getting from people like me is, 'Just so you're aware there's a new auditing standard that's changing the auditor's report that has existed for 50 years plus. Now there's going to be a section where the auditors have to communicate the areas that were most challenging and difficult for them in the audit.'…There was a lot of questions, right? Once they saw what we were actually communicating, I think they realized that there's not a whole lot of proprietary information being shared. There's not a whole lot of detail about what these CAMs really are. (P27)

All participants report efforts to ensure clients are not surprised by their CAMs:

> It also helped that we began this conversation about a year and a half before the actual CAM needed to go on a 10K. So, there was no rush. There was no surprise. Even the new transactions which happened, we just told them right away, "This is going to be a CAM." They were like, "Okay."…The audit committee wasn't concerned one way or the other, and in the end, management wasn't really concerned either. (P6)

In one case the client was surprised, but not concerned, by the CAM:

> When we went through the dry run with him [the client]…he said "wow…I find it interesting that the one account I would tell you my investors don't really care about is the one that you have a CAM related to." And what he meant by that is we've had impairment charges in the past…and everybody non-GAAPs them out and nobody cares. (P24)

Further smoothing the way, most participants did not bill their clients for CAM implementation work: "There were battles to fight, and there were battles not to fight. Every year…there are significant accounting, auditing, and reporting items that you would rather go chase additional fees for rather than CAMs" (P8). Another participant explained: "some of the initial work was more like, 'Okay, that's our responsibility to get up to speed on the standard'"

(P6). This helps explain why most archival studies find no associations between the introduction of CAM reporting and audit fees (Bedard et al. [2018], Gutierrez et al. [2018]).

Table 6 illustrates that auditors' CAM implementation avoided friction with clients. The median participant answered "not at all" to questions about whether they experienced disagreements with management or the audit committee. Further, the median participant did not change their beliefs about the number and nature of CAMs to report because of their conversations with management or the audit committee. In one unusual case, a participant at a smaller firm reports minor pushback from management on their decision to report zero CAMs: "If anything, management will say, 'Why don't you just throw one in there so that we don't get picked [for inspection]?' I'm like, 'No, I'm not just going to throw one in there so we don't get picked'" (P4).

4.2.5 Rule #5: No Surprises – For the Report Users

Almost all participants (90%) report that ensuring CAMs do not contain any original information management has not publicly disclosed is a priority: "There's no requirement that says you can't be the original source of information. But I think both the audit firms, as well as the clients, don't want that to be the case" (P13). Several participants found it challenging to avoid original disclosure: "When you try and get into detail about a particular matter, it's kind of hard not to do that [include original information], right? Because our clients sometimes try and disclose the bare minimum about a complex area" (P8). One partner provides an example:

> The matter…had gotten so much attention in the media and from management and the audit committee, that all we wanted [was] to make sure that we threaded the needle very carefully. So as not to disrupt the presentation by management nor give an indication more than what was already in the market. So again, that's where word choice came in. We had to leave it somewhat vague on purpose. But had to be specific enough to explain why it was a CAM. (P25)

Several participants report that management made changes to their own financial statement disclosures to ensure that the CAMs had no original information: "Management was reading what the auditors are going to say, and they were saying, 'Hey, maybe we need to enhance our disclosures as well to make sure it's clear what this is really all about'" (P22). Audit firm national office partners also provide impetus for such changes:

> As we've worked through consultations…people like me in the national office will advise engagement teams, 'Perhaps you should suggest to management making some changes in their disclosure.' We're very careful…that we're not including anything in there that's inconsistent with or incremental to what management has said somewhere in its financial statements. (P21)

Auditors' strategy to implement CAMs early gives management ample opportunity to make disclosure changes, and the option to preempt auditors' disclosures with their own:

> This is what our CAM is going to look like in the 10K, so you [management] should fix your 10Q now. Like, don't just change it for the first time when the CAM comes out. Try to get ahead of it. If you have to tweak your wording, get ahead of it a couple quarters ahead, so it doesn't look like you're making a change just because the auditors are making you change it (P6).

These responses help explain archival findings that management changes their disclosures in CAM-related areas (Burke et al. [2022], Drake et al. [2022]).

Auditors' attempts to avoid original disclosure are consistent with coercive institutional pressure from the PCAOB. The CAMs standard does not specifically prohibit original disclosure, stating: "the auditor is not expected to provide information…That has not been made publicly available by the company *unless such information is necessary* to describe the principal considerations that led the auditor to determine the matter is a CAM or how the matter was addressed" (PCAOB [2017a, ¶.14], emphasis added). Regardless, as a result of pushback during the comment letter process, the PCAOB CAMs standard re-proposed in 2016 and issued in 2017 significantly narrows the potential for auditors to disclose original information as compared to the expansions to the audit report the PCAOB proposed in 2011 and 2013. Changes include abandoning the idea of requiring an Auditor's Discussion and Analysis report (PCAOB [2011]), reducing the population of potential CAMs to only those matters discussed with the audit committees (PCAOB [2013]), and limiting CAMs to only those matters related to material financial statement accounts or disclosures (PCAOB [2017b]).

While the changes to reduce the potential for original disclosure are palatable to auditors and clients, they are misaligned with the PCAOB's objectives for CAM reporting. As the PCAOB acknowledges in its release of AS 3101:

> Investor commenters, including the auditor's report working group of the IAG [PCAOB Investor Advisory Group], argued that there should not be any limitation on the auditor providing original information and that the re-proposal went too far in constraining the auditor from providing original information in response to concerns expressed by other commenters (which were primarily companies and accounting firms). (PCAOB [2017b, ¶.32])

Archival research further illustrates that clients and auditors have incentives to ensure CAMs hold no surprises. While CAMs have no investor response on average, receiving a CAM related to an unexpected topic is negatively associated with stock market reactions (Burke et al. [2022]).

4.2.5 Summary

Five informal rules of behavior critical to auditors' production of comfort with CAMs emerge from the implementation process. These rules of behavior are conducive to CAMs that contain no surprises and favor copying others' CAMs over reporting engagement-specific details. The rules seem to undermine the PCAOB's intent that CAMs increase the usefulness of the audit report to investors through engagement-specific information and help explain research that finds outcomes inconsistent with this intent (e.g., Bédard et al. [2019], Christensen et al. [2014], Gutierrez et al. [2018], Kelton et al. [2018], Lennox et al. [2022], Rapley et al. [2021]). Our results support the idea that CAMs that are *less* similar to those of peer firms are of higher quality (Rousseau [2022]) because dissimilarity proxies for successfully resisting mimetic institutional pressure. Our findings further suggest that the expansion of managements' disclosures is a potential mechanism for the minority of studies that find an investor response to CAMs (Burke et al. [2022], Li et al. [2019]).

Table 7 further triangulates the inference that CAM adoption has limited influence on the audit environment. The median partner reports no change from the prior year audit with respect to audit evidence, use of specialists, leverage in negotiations with management, audit hours, or audit fees. The median partner reports an increase in consultation with local, regional, and national office resources, as well as communication with management and the audit committee.

4.3 HOW DO AUDITORS VIEW THE OUTCOMES OF THEIR CAM PROCESSES?

4.3.1 Auditors' Perceptions of the Effectiveness of their CAMs Process

Participants are confident in their CAM processes and compliance with AS 3101:

> If you follow everything that the firm has put out, it's going to be pretty hard for you to get wrong, as long as you're aligning it with what the engagement team is doing…if you use all the resources the firm has put out there, you use all your specialists, including the national office, that's I think the best way to go about it. (P3)

Table 8, Panel A illustrates that the median partner rates their comfort with CAM reporting as very high and considers themselves very familiar with AS 3101. Table 8, Panel B reveals that the median participant feels little to no concern that their work on CAMs negatively affects their relationship with the client or will result in negative inspection, litigation, or career outcomes. It shows that participants' greatest concern is providing useful information to investors.

Despite this, the majority of our participants (52%) express reservations about whether their CAMs will actually increase the usefulness of the audit report: "I get what they're [PCAOB] trying to do. I don't know that it really provides much additional insight. It's a hell of a lot of work for which clients are willing to pay precisely zero…And if you want to know if something's hard, how about you open up the footnotes?" (P26). Another participant adds:

> I'll be honest, I'm not sure who CAM reporting really benefits. I'm not sure how it's really helpful to an investor, because ultimately you have a clean opinion or you don't have a

> clean opinion…I've heard audit committees sort of say, 'Well, who is this helpful to other than your regulator who now has a path to very clearly identify the place where you say you had the most judgment?' (P24)

Some participants (34%) identify the de-facto rule against reporting zero CAMs as a reason for their doubts about CAMs' usefulness:

> I think the PCAOB made a massive mistake…in terms of creating this expectation that there will be CAMs…I think the whole point of the guidance and the standard was for the investor to be able to figure out, in easier fashion, where the potential extra risk is…or where independent auditors spend the bulk of their time…I think by expecting every company to have one, it dilutes the importance of it. (P7)

Another partner adds: "That account was in that [zero CAM] boat, where they had none. They were told they needed one. They put it in. Now this year we're going to have two CAMs on that account, because they can't drop the first one that they probably shouldn't have had in the first place" (P25).

A few participants, including a national office partner, disagree and express the belief that CAMs are efficacious:

> I think there is an increased level of focus on the procedures that we do for something that has been concluded to be a CAM…The auditors benefit because I think it enhances audit quality…Preparers probably benefit indirectly because they know the auditor's focused on these things…I think audit committees benefit from that because you're probably now having a more robust dialogue…I think everyone benefits by the fact that because we're now talking about something publicly that relates to how we audit something, it creates more dialogue and transparency and understanding. (P 21)

4.3.2 Who Can Tell Good CAMs from Bad?

A potential explanation for the majority's reservations about the usefulness of CAMs is that some of our participants (38%), including signing partners for major US large accelerated filers and national-office CAM partners, struggle to define high-quality CAM reporting:

> I was in a meeting the other day and we were talking about…how do we measure the effectiveness of CAMs? …I think it's hard unless you know the company. I mean, you might be able to pull out some bad CAMs, right? …You might be able to identify that well, gosh, they have some pretty judgmental information based on their footnotes, but that's not

> a CAM. So that would seem like a bad CAM. But I don't know. I don't know how you judge a good CAM. (P28)

> I don't know, quite frankly, if you would be able to [tell a good CAM from a bad CAM]. The reason I thought they were bad is because I know the industries that I was looking at and from reading...And in some cases, I knew the companies really well…I don't know that you would unless you really know the particular industry. So, I think a savvy investor probably would, or maybe like an analyst probably would. I don't know if your run-of-the-mill person off the street would. (P4)

While participants struggle to articulate CAM quality in terms of the actual content, several participants define CAM quality in terms of wording: "The words that come to mind to me would be plain English. If the goal of the CAM is to educate an investor, who's not particularly skilled in the auditing profession, they'd be able to read it and…not be overwhelmed with audit speak" (P30). Another participant says:

> I don't think that they're terribly useful for a financial statement user. They may be, but it's hard for me to make that independent judgment knowing what I know from the other side of the table. I think, from my own vantage, a good CAM is one that's as uncomplicated as it can be and as plain-English as it can be. (P18)

4.3.3 Can the PCAOB Course-Correct CAMs Through Inspections?

The PCAOB possesses coercive power that may alter the trajectory of CAM reporting in the future, either through changes to the standards and guidance or stringent enforcement by inspectors. The PCAOB identifies CAMs as a common deficiency in its 2020 inspections and notes two primary areas of non-compliance: incomplete documentation of the population of potential CAMs and inadequate description of the CAM in the audit report (PCAOB [2021]). The PCAOB's observations are consistent with auditors' experiences with inspections. One national office partner reports that the PCAOB "looked at CAMs on…every inspection they collected this year…They focus on the completeness of the communication [with the audit committee]" as well as "the procedures that were actually performed in the CAM, tying it back to the underlying work papers to make sure the work's done" (P22).

It is unclear whether the PCAOB's inspection findings will substantively change auditors' CAM practices, as our interviews reveal that ensuring complete documentation, getting the wording right, and ensuring CAM procedures tied to the workpapers were high priorities for engagement teams and national offices in their initial CAM implementation. Namely, these inspections are not a new form of coercive pressure. However, the PCAOB appreciates that CAMs are not as useful to investors as they anticipated, opening the possibility for future corrective action. A 2020 PCAOB post-implementation report found that only 33 percent of professional investors had ever read a CAM, and PCAOB Chairwoman Erika Williams acknowledged in an October 2022 speech that "investor awareness of CAMs was still a work in progress."

4.3.4 Summary

Audit partners are very comfortable with their CAM reports and have few concerns that CAMs could result in negative inspection, liability, or career outcomes. We observe that much of this comfort derives from symbolic, rather than substantive, actions (i.e., conforming to the five rules identified in Section 4.2). As a result of this symbolic comfort, participants are skeptical that CAMs achieve the PCAOB's goal of increasing the audit report's usefulness. This skepticism is based on beliefs that CAMs are redundant to managements' disclosures, that requiring at least one CAM dilutes their importance and diminishes comparability, and that the pressure to be similar to others impedes engagement-specific disclosure. Consistent with doubts about CAMs' usefulness, even highly experienced auditors struggle to articulate what high-quality CAM content entails. It is unlikely that PCAOB inspections will course-correct the trajectory of CAMs, as the PCAOB's 2020 inspection findings relate to areas that are already auditor priorities. Indeed, similar to other instances of applying coercive pressure through inspections, the pressure risks encouraging more of the same legitimized – but ultimately inadequate – procedures (e.g., Griffith et al. [2015]).

Our results suggest that changes in the audit institutional setting such as reducing the pressure within and across firms to have similar CAMs or refocusing PCAOB guidance and inspections on engagement-specific information may be necessary for CAM reporting to achieve the PCAOB's original goal of making the auditor's report more useful. National office CAM leaders express their firms' willingness to adapt to these changes: "Clearly, if the PCAOB changed the definition of a CAM…that would change things dramatically. If the PCAOB went down that path, we would have to re-visit everything" (P23). It is uncertain whether the new Biden administration PCAOB will take such action, as previous PCAOB decisions on CAMs do not appear to vary based on politics. For example, the PCAOB eliminated the concept of auditor's discussion and analysis and narrowed the scope of CAMs to include only material financial statement accounts and disclosures under the leadership of Chairman Jim Doty, an Obama-era appointee who championed CAMs and led a pro-regulation board (PCAOB [2022a]). The PCAOB issued pre-implementation guidance related to CAMs, presided over the first CAMs, and conducted the first year of CAM inspections under the leadership of Chairman Will Duhnke, a Trump-era appointee known for deregulation (PCAOB [2022b]).

5. Conclusion

We examine how auditors implemented the PCAOB's new requirement to include CAMs in the audit report. This requirement represents the first change to audit reporting in over 70 years, and the first attempt by the PCAOB to compel auditors to include engagement-specific information in traditionally boilerplate audit reports. As a result, the standard has potential to dramatically increase the audit report's usefulness. Our semi-structured interviews and experiential questionnaires yield a detailed description of auditors' CAM implementation process. We find that audit firms collaborated with each other and the PCAOB to design best practices for CAMs and made significant investments in firm-level infrastructure to support partners in the field in implementing those practices, consistent with normative isomorphism.

Despite these efforts, auditors faced overwhelming pressure to imitate others' CAM reporting (mimetic isomorphism) and to treat PCAOB guidance suggesting that most engagements would have at least one CAM and that CAMs would rarely include original information as edicts against doing either, rather than principles-based judgment calls (consistent with coercive isomorphism). These pressures legitimized informal rules of behavior that helped auditors achieve symbolic, but not substantive, comfort with CAMs. These rules include: (1) don't be an outlier, (2) reporting zero CAMs is taboo, (3) report at least one recurring CAM, (4) no surprises for the client, and (5) no surprises for the audit report users. Accordingly, while our participants are comfortable with their CAM practices, they doubt that CAMs will be useful investors that have read management's disclosures and struggle to define high-quality CAM content. We conclude that it is unlikely that the PCAOB can realign auditors' CAM practices with the spirit of AS 3101 through inspections alone, as the PCAOB's 2020 inspection findings do not highlight an overarching issue with auditors' CAM practices, but specific instances in which engagement teams failed to execute those practices correctly.

Our study can help interested parties evaluate whether and why the new audit reporting model achieves its objectives. Our study suggests that auditors' CAM implementation ultimately did not yield the PCAOB's desired outcome due to a lack of broad-based institutional change accompanying the standard. Specifically, PCAOB actions exerted coercive pressure misaligned with their objectives and auditors faced strong mimetic pressures to imitate others' CAM reporting. Auditors' symbolic approach to producing comfort with CAMs (i.e., creating and following five rules reminiscent of the longstanding standardized approach to audit reporting) therefore simultaneously satisfies the requirements of the standard yet fails to achieve its objectives.

Our findings provide regulators, researchers, and practitioners with a better foundation to understand and anticipate how auditors will implement new standards. Our results illustrate the real-world effects of the political nature of audit standard setting by showing how the PCAOB's narrowing of the circumstances under which auditors would report original information in CAMs translated in practice into a prohibition against doing so. It is possible that alternative forms of coercive pressure, such as evaluating auditors' CAM reporting processes rather than outcomes (Peecher et al. [2013]) or using the inspection process to identify and disseminate best practices in addition to deficiencies (Griffith et al. [2015]), could move CAM reporting closer toward the PCAOB's original intent. Similarly, changes in audit firm and team culture that relieve the pressure to conform and allow auditors to prioritize substantive comfort would promote this realignment. Further, we show that a regulator's implementation guidance may be as or more salient than the standards themselves in exercising coercive pressure, as it is issued at a critical time – when audit firms are designing their best practices. Thus, it is imperative that regulators evaluate the consistency of implementation guidance with their goals to ensure that the guidance does not lead to symbolic, rather than substantive, compliance with standards.

Our study facilitates several lines of future research. Future experiments can utilize this new understanding of auditors' CAM decision processes to identify and test ways to improve CAMs, particularly with regard to prompting auditors to prioritize substantive comfort. Our evidence provides a potential explanation for why archival research finds no associations between CAMs – a tectonic shift in the audit reporting model – and various audit and investor outcomes. With this in mind, archival researchers can examine the extent to which the individual experiences of our participants map to large-scale reporting phenomena. Specifically, such research might examine changes to management's disclosures, patterns of CAM recurrence and non-recurrence, conformity within peer firms' CAM reporting, and wording choices consistent with high- and low-quality CAMs. In these investigations, it is important to consider whether the audit and financial reporting environment may have changed during the CAMs dry run period (2017 and 2018) rather than the implementation period (2019 and 2020), given that our participants report that management began changing their disclosures in the dry-run period.

APPENDIX

Interview Materials

This appendix includes (1) the semi-structured interview script used for all interviews and (2) the detailed coding scheme used to process and analyze all interview transcripts. Note that participants reviewed an IRB-approved informed consent sheet prior to beginning the interview.

1) Semi-structured Interview Script

Introduction

Thank you for taking some time to discuss your experiences with CAM/KAM reporting with us. The goal of our research is to help regulators, firms, and researchers better understand the CAM/KAM reporting process and any challenges therein. These parties can then use insights from our research to improve standards, firm policies, and other aspects of the process.

During our interview, we will ask you about your experiences with CAM/KAM reporting on the engagement for which you previously completed the online survey. Before we begin the interview, we encourage you to bring to mind this engagement and think about the process you used to make your CAM/KAM reporting decisions and the factors that affected your decision.

Please be as detailed as possible in your responses, without including any information that might identify the client, your audit firm or yourself. When answering the questions, please refer primarily to the client engagement that you referenced during the pre-interview online survey. Of course, if there are any important generalities that you want to discuss, feel free to do so.

Questions

1. Below are the key steps to CAM reporting that you outlined in the online survey. We would like you to expand on those steps including when each step is done, how each step is done and by whom, what information you use, and why each step is important.

Key Step	When?	How done? By whom?	Relevant information or evidence?	Why important?
(Steps are pre-populated per each participant's survey responses.)				

2. (If not covered above) How did you narrow down potential CAM topics into the CAMs that you ultimately reported?
3. (If not covered above) What interactions did you have with (a) management and (b) the audit committee about CAMs? How did those interactions affect what you ultimately reported as CAMs?
4. What challenges did you face in your CAM reporting and how did you address them?
5. What is your most important goal with respect to CAM reporting?
6. What is your most important worry with respect to CAM reporting?
7. In general terms, how do you measure the 'quality' of CAM reporting? What does a 'good' versus 'bad' CAM look like? What makes a good CAM process? What makes a good CAM outcome?
8. In terms of your relationships with management and the audit committee, have any of the following changed as a result of the shift to CAM reporting? If so, how?
    - Your relationship with management
    - The openness with which management communicates with you
    - The leverage you have in negotiations with management
    - The skepticism with which you view management's assertions
    - Your relationship with the audit committee
    - The openness with which you communicate with the audit committee
    - The leverage you have in negotiations with the audit committee
    - Other (please describe)
9. Describe guidance or decision aids your firm provides relevant to the CAM reporting process.
10. Are there any past experiences in your career that have been particularly helpful to you in implementing CAM reporting?
11. (If applicable) Did you have any potential CAMs involving information management was <u>not</u> planning to disclose in their annual report? If yes, please describe your experience.
12. How do you expect your CAM reporting to change next year and in the future? Do you think your experience will be different beyond this initial adoption year?
13. You and your team clearly put a lot of effort into CAM reporting- what was your experience with building that effort into your audit fee? How do you think CAM-related fees will be treated in the future?
14. Who do you think CAM reporting benefits, if anyone?

2) Interview Coding Scheme

Topic 1: Steps in the CAM reporting process

A. Dry run
    1) Introducing CAM standard to management and the AC
        i. How did management first learn of CAMs?
        ii. How did the AC first learn of CAMs
    2) Retrospective – what would the CAMs have been for last year?
    3) Within- firm early training/ guidance
    4) CAM determination dry run
    5) Documentation dry run
    6) Draft CAM report dry run
    7) Firm-wide central review dry run
    8) Client/ AC views draft CAMs dry run
    9) other
B. Talk to audit committee
    1) CAM topics are substantially decided?
C. Determine CAMs
    1) Identify universe of CAMs
    2) Document universe of CAMs
    3) Winnowing close calls
    4) Any CAMs involving non-public info
D. Further conversation with management and AC about CAM topics/ notification of CAM topics
E. Draft CAM
F. Firm wide review
G. Provide Draft CAM report to management/ AC
H. Issue report
I. Other

Topic #2: Assessment of the process

A. Challenges
B. Surprises
C. Goals
    1) Comply w/ standards
    2) Usefulness to investors
D. Worries/ concerns
E. What is a high quality CAM process?
F. Changes to the audit dynamic (ex. relationship w/ management, AC, etc.)
G. Other

Topic #3: Outcomes

A. Definition of CAM quality
    1) Example of good CAM
    2) Example of bad CAM
B. How does the firm define good outcome?
C. Effects on fees
D. Effects on audit effort
E. Effects on management disclosures/ FS assertions
F. How will CAM reporting change in the future?
G. Opinion on the standard
    1) Usefulness?
    2) Other
H. Ideal number of CAMs
    1) Have at least one
    2) Recurring/ nonrecurring
I. Don't be an outlier
J. CAM language
K. Other

Topic #4: CAM inputs

A. Firm training and guidance, including audit methodology
B. Firm decision aids/ tools
C. Workpapers
D. Prior career experiences
E. Feedback from national offices (how the partner viewed it)
F. Conferring
    1) Among engagement team
    2) With concurring partner
    3) Non-engagement team personnel in the firm
    4) With those outside the firm
G. AC input/ reactions
H. Management input/ reactions
I. Other

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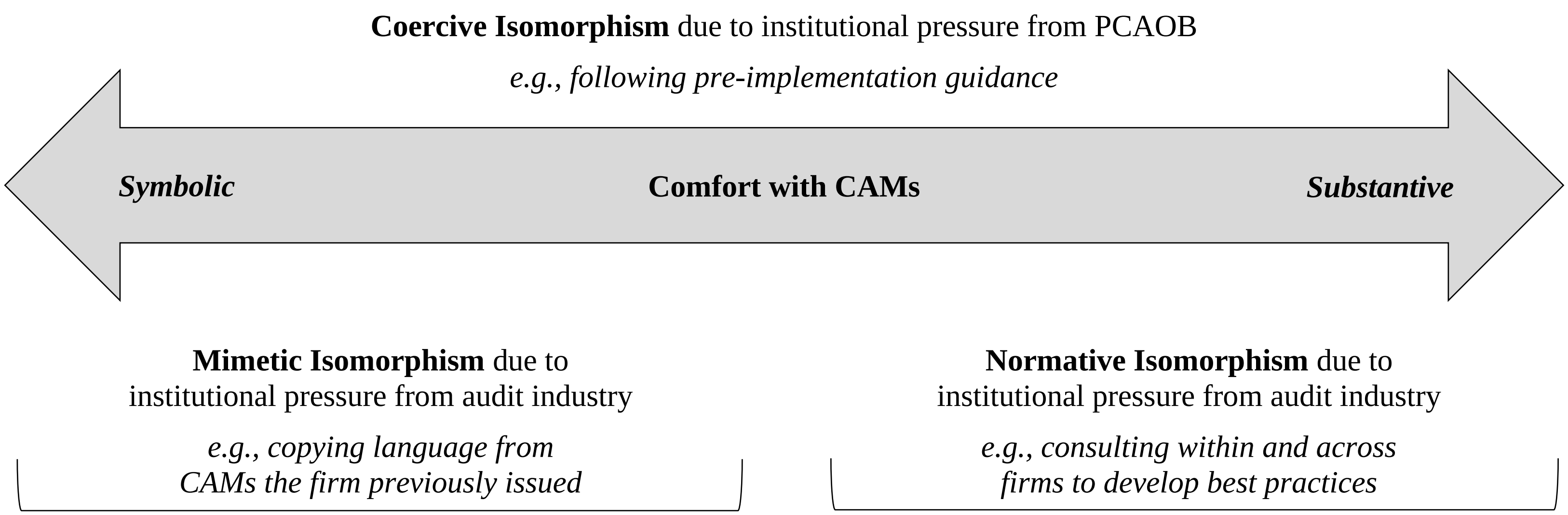
FIG. 1: Production of comfort in auditors' critical accounting matter reporting decisions



The figure above reflects our synthesis of institutional isomorphism and auditor comfort theories, applied to the CAM reporting setting. Theoretical constructs appear in **bold** and are defined below.

Comfort with CAMs: Auditor comfort refers to the feeling auditors achieve when they have performed sufficient rituals and procedures to attest to the reasonableness of inherently uncertain financial statements, despite the impossibility of reducing uncertainty in their judgment to zero. These rituals and procedures can be symbolic or substantive, with substantive (symbolic) rituals (not) providing evidence useful to evaluating financial statements (Pentland 1993).
Coercive Isomorphism: Process by which institutional practices converge when organizations or individuals respond to pressure from an authoritative source (such as a government regulator) by implementing practices deemed legitimate by the source (DiMaggio and Powell 1983).
Mimetic Isomorphism: Process by which institutional practices converge when organizations or individuals facing uncertainty respond by imitating others' practices without much regard for their intrinsic quality (DiMaggio and Powell 1983).
Normative Isomorphism: Process by which institutional practices converge when organizations or individuals adopt similar practices over time as they observe each other and evaluate these observations to inform their own best practices (DiMaggio and Powell 1983).

FIG. 2: Workflow for CAMs based on PCAOB standards

1) Throughout the audit engagement: Gather and evaluate information about complex audit issues in the planning, client understanding, risk assessment, control testing, and substantive testing phases. Communicate with management and audit committee about these issues as needed.

2) Hold required discussions with the audit committee: about the following issues specified in PCAOB AS 1301:

- Significant risks
- Critical accounting policies and estimates
- Significant unusual transactions
- Related party transactions
- Going concern
- Corrected and uncorrected misstatements
- Communications and disagreements with management
- Issues the auditor found difficult to audit
- Other matters relevant to oversight

3) Identify potential CAMs: Those issues that both:

a) Relate to material financial statement accounts and disclosures, and
b) Were communicated or required to be communicated with the audit committee

4) Determine which of the audit issues from step three are CAMs: by evaluating whether they required especially challenging, subjective, or complex auditor judgment based on the following factors specified in PCAOB AS 3101:

- Risks of material misstatement
- Auditor judgment required in areas with significant estimation uncertainty
- Significant unusual transactions
- Auditor subjectivity required in selecting procedures and evaluating evidence
- Extent of audit effort and specialized personnel required
- Nature of audit evidence obtained

5) Document the CAM determination procedures: with a description of why or why not each audit issue material to the financial statements and communicated with the audit committee was determined to have involved especially complex judgment.

Continued

FIG. 2: Workflow for CAMs based on PCAOB standards, Continued

Continued

6) Hold further discussions about the determined CAMs with management and the audit committee if needed, especially regarding the treatment of sensitive information and/or information management has not otherwise disclosed that is relevant to the CAMs.

7) Prepare the CAMs portion of the audit report: in accordance with the following PCAOB requirements for what should be included in communicating CAMs:

- Identify the CAM
- Describe the reason(s) the issue was determined to be a CAM
- Describe how the audit addressed the CAM
- Identify the financial statement account(s)/disclosure(s) the CAM relates to
- Or, if no CAMs were identified, state that there were no CAMs

8) Provide a copy of the audit report, including CAM communications, to the audit committee. Discuss as needed.

9) Issue the audit report.

We developed this workflow by synthesizing the procedures described in AS 3101, the PCAOB's overview in the extended AS 3101 release document (PCAOB [2017b, 11-14]), and the PCAOB's CAM pre-implementation guidance (PCAOB [2019a], [2019b]).

FIG. 3: Conceptual framework of factors relevant to auditors’ CAM reporting decisions

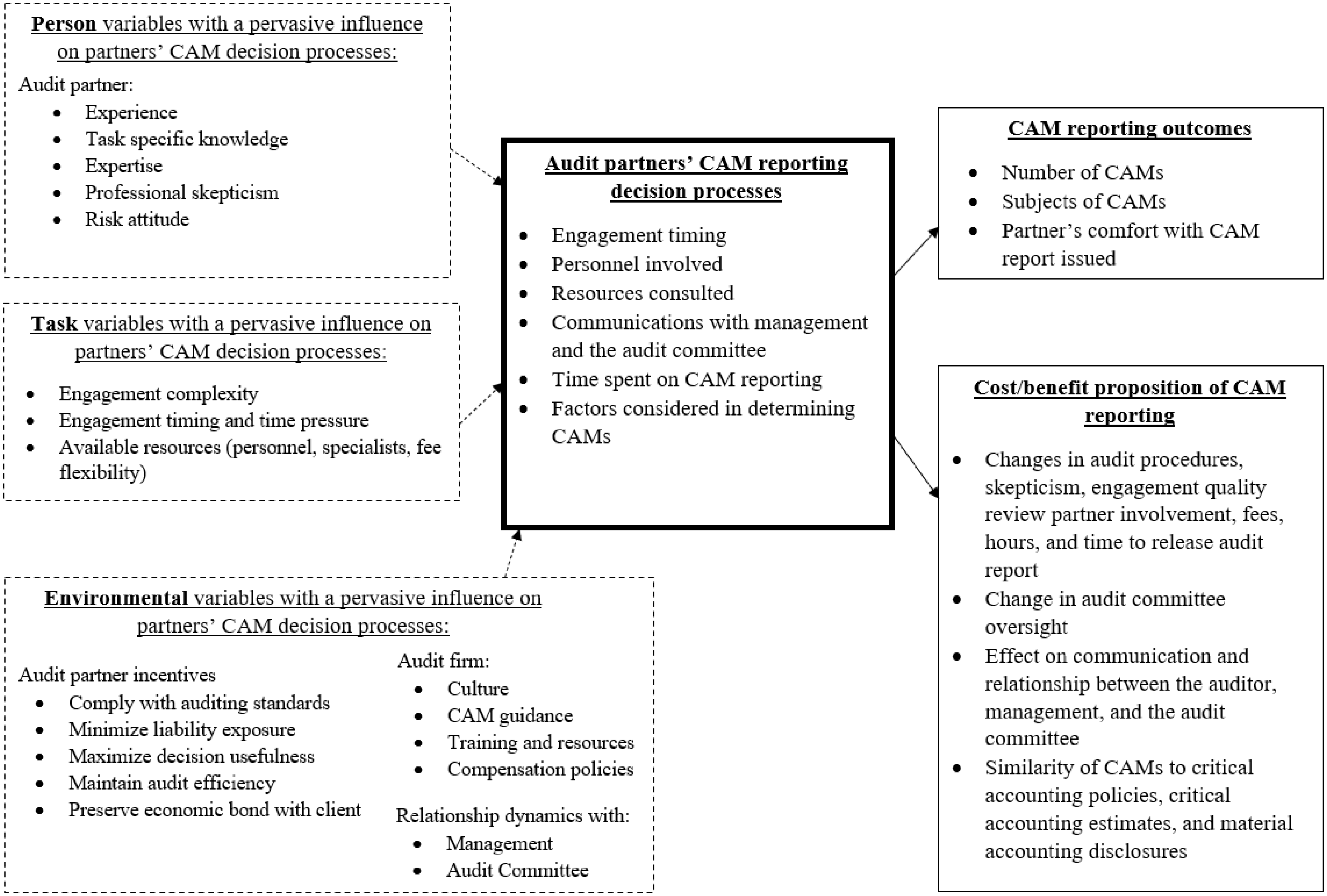


FIG. 3: Conceptual framework of factors relevant to auditors' CAM reporting decisions, Continued

We developed this framework with reference to the person, task, and environment taxonomy for judgment and decision-making research in accounting (Bonner [2008]). We incorporated stakeholder concerns with respect to costs, benefits, and unintended consequences of CAMs to auditor liability and the auditor-client relationship summarized in the PCAOB release document for AS 3101 (PCAOB [2017b]). Boxes with dotted line borders denote input factors, boxes with bold borders denote facets of auditors' CAM reporting processes, and boxes with standard borders denote outcome factors.

TABLE 1

Descriptive Statistics

Panel A: Descriptive Statistics – Participating Auditor Characteristics

Participant Number	Years of Audit Experience	Position on Engagement	Big 4?	Gender	CAM Technical Leadership Partner?	Experience Issuing CAMs (# of engagements)	Experience Auditing Unusual Transactions[1]	Experience Auditing Complex Estimates[1,2]
1	26	Signing partner	Yes	Male	No	3	5	3
2	15	Partner (non-signing)	Yes	Female	No	1	2	4
3	20	Signing partner	Yes	Female	No	1	5	5
4	17	Partner (non-signing)	No	Male	Yes	1	5	3
5	34	Signing partner	No	Male	No	1	4	3
6	17	Signing partner	No	Male	No	2	4	4
7	21	Signing partner	Yes	Male	No	3	4	4
8	23	Partner (non-signing)	Yes	Male	No	2	5	5
9	25	Signing partner	Yes	Male	No	2	5	5
10	19	Director (non-signing)	Yes	Female	No	2	4	4
11	19	Partner (non-signing)	Yes	Female	No	1	2	5
12	26	Signing partner	Yes	Male	No	1	4	3
13	15	Partner (non-signing)	Yes	Male	No	1	4	3
14	18	Signing partner	Yes	Male	No	3	2	4
15	19	Partner (non-signing)	Yes	Male	No	2	4	4
16	20	Signing partner	Yes	Male	No	1	3	3
17	20	Signing partner	Yes	Male	No	3	5	5
18	13	Senior Manager	Yes	Male	No	1	1	3
19	17	Partner (non-signing)	Yes	Male	No	1	4	4
20	20	Signing partner	Yes	Male	No	6	4	5
21	27	National Office Partner	Yes	Male	Yes	0	4	4
22	21	Partner (non-signing)	Yes	Male	Yes	1	4	5

TABLE 1, Continued

Descriptive Statistics

Panel A: Descriptive Statistics – Participating Auditor Characteristics, Continued

Participant Number	Years of Audit Experience	Position on Engagement	Big 4?	Gender	CAM Technical Leadership Partner?	Experience Issuing CAMs (# of engagements)	Experience Auditing Unusual Transactions[1]	Experience Auditing Complex Estimates[1,2]
23	27	Partner (non-signing)	Yes	Male	Yes	20	5	5
24	23	Signing partner	Yes	Female	No	3	4	4
25	15	Partner (non-signing)	Yes	Male	No	1	5	5
26	25	Signing partner	Yes	Male	No	4	5	
27	22	Signing partner	Yes	Male	No	3	5	
28	25	Signing partner	Yes	Female	No	1	5	
29	32	Signing partner	Yes	Female	No	2	3	
30	24	Signing partner	Yes	Male	No	2	5	
Mean:	22		90%	23% female	13% Yes	3	4	4

1. Measured on a five-point scale where one equals very little and five equals very much.
2. Missing values arise because one of our participating firms asked that some items be removed as a condition of their participation.

TABLE 1, Continued

Descriptive Statistics

Panel B: Descriptive Statistics – Client Characteristics

Participant Number	Client Industry	Partner Tenure (years)	Inherent Risk[2]	Control Risk[2]	Fraud Risk[2]	Geographic Region	Client Size -Revenue (USD- millions)	Client Size- Assets (USD- millions)	Audit Fee[1] (USD- millions)
1	Retail	3	3	3	3	US-Midwest	$1,000 to $5,000	Greater than $5,000	$1 to $3
2	Technology / Communications	1	4	4	5	US-West	$1,000 to $5,000	Greater than $5,000	$3 to $5
3	Technology / Communications	12	2	2	3	US-West	$100 to $500	$100 to $500	$1 to $3
4	Energy	4	3	3	3	US-Mid Atlantic	$100 to $500	$500 to $1,000	Less than $1
5	Energy	8	3	3	2	US- Mid Atlantic	$500 to $1,000	$1,000 to $5,000	Less than $1
6	Healthcare / Pharmaceuticals	7	3	3	3	US-Midwest	$500 to $1,000	$1,000 to $5,000	$1 to $3
7	Consumer Products	3	3	3	4	US-Midwest	$1,000 to $5,000	$1,000 to $5,000	$3 to $5
8	Manufacturing	4	4	4	2	US-Midwest	Greater than $5,000	Greater than $5,000	Greater than $10
9	Manufacturing	3	3	3	3	US-Midwest	Greater than $5,000	$1,000 to $5,000	$5 to $7
10	Manufacturing	10	2	2	2	US-Midwest	Greater than $5,000	Greater than $5,000	Greater than $10
11	Financial Services	2	3	3	1	US-Midwest	Greater than $5,000	Greater than $5,000	Greater than $10
12	Distribution	5	3	3	3	US-Midwest	Greater than $5,000	Greater than $5,000	$3 to $5
13	Manufacturing	3	3	3	3	US-Midwest	Greater than $5,000	$1,000 to $5,000	$3 to $5
14	Retail	3	2	2	2	US-Midwest	$1,000 to $5,000	$1,000 to $5,000	Less than $1
15	Manufacturing	2	3	3	3	US-Midwest	Greater than $5,000	Greater than $5,000	Greater than $10
16	Transportation and logistics	4	3	3	3	US-Midwest	$1,000 to $5,000	$500 to $1,000	$1 to $3
17	Distribution	6	3	3	3	US-Midwest	Greater than $5,000	Greater than $5,000	$3 to $5
18	Technology / Communications	2	3	3	3	US- West	Greater than $5,000	Greater than $5,000	Greater than $10
19	Multinational conglomerate	8	3	3	3	Japan	Greater than $5,000	Greater than $5,000	$7 to $10
20	Technology / Communications	3	3	3	1	US- Northeast	$100 to $500	$500 to $1,000	$1 to $3
21	Manufacturing	0	3	3	1	US- Northeast	$1,000 to $5,000	Greater than $5,000	Greater than $10
22	Financial Services	2	3	3	1	US- Northeast	Greater than $5,000	$500 to $1,000	Greater than $10

TABLE 1, Continued

Descriptive Statistics

Panel B: Descriptive Statistics – Client Characteristics, Continued

Participant Number	Client Industry	Partner Tenure (years)	Inherent Risk[2]	Control Risk[2]	Fraud Risk[2]	Geographic Region	Client Size -Revenue (USD- millions)	Client Size- Assets (USD- millions)	Audit Fee[1] (USD- millions)
23	Manufacturing	5	2	2	3	US-Northeast	Greater than $5,000	Greater than $5,000	$3 to $5
24	Manufacturing	2	3	3	3	US-Midwest	Greater than $5,000	Greater than $5,000	Greater than $10
25	Financial Services	7	4	4	3	US- Northeast	Greater than $5,000	Greater than $5,000	Greater than $10
26	Technology / Communications	3	4	4	4	US-Midwest	$1,000 to $5,000	$1,000 to $5,000	
27	Technology / Communications	3	0	0	0	US-Midwest	$500 to $1,000	$500 to $1,000	
28	Technology / Communications	7	4	4	3	US-Midwest	$500 to $1,000	$1,000 to $5,000	
29	Financial Services	32	3	3	3	US-Midwest	$1,000 to $5,000	Greater than $5,000	
30	Manufacturing	2	3	3	2	US-Midwest	Greater than $5,000	Greater than $5,000	
	Mean:	5	3	3	3	**Mode:**	Greater than $5,000	Greater than $5,000	Greater than $10

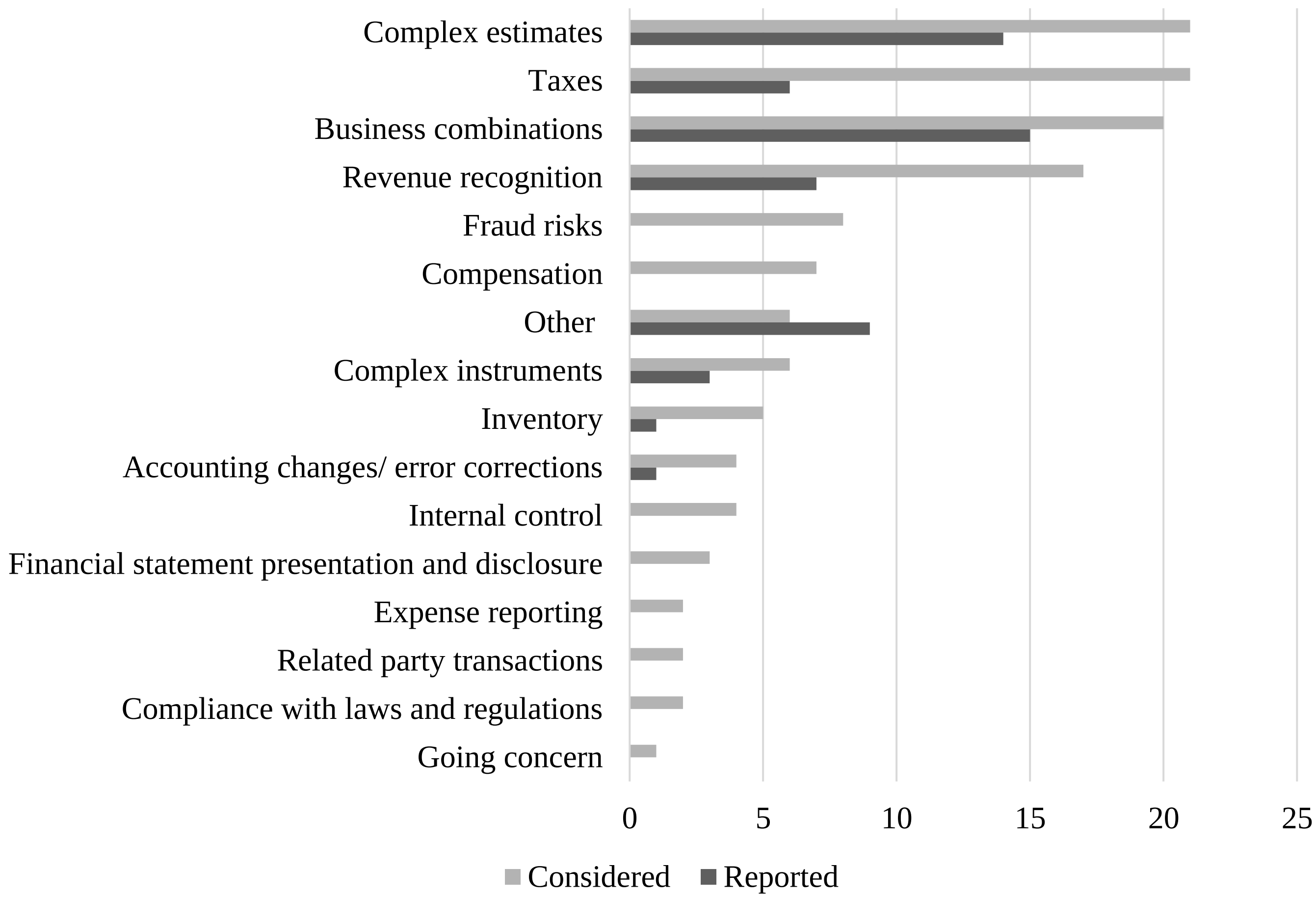
1. Missing values arise because one of our participating firms asked that some items be removed as a condition of their participation.
2. Measured on a five-point scale where one equals very low risk and five equals very high risk.

TABLE 2
Engagement Timing

	Began Thinking About Potential CAM Topics		Began Discussing Potential CAM Topics with Management		Began Discussing Potential CAM Topics with the AC		Reasonably Sure CAM Topics were Identified		Certain CAM Topics were Identified	
	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent
Pre-planning	11	36.7	11	36.7	9	30.0	2	6.7	0	0.0
Planning	13	43.3	10	33.3	10	33.3	1	3.3	0	0.0
Risk Assessment	5	16.7	2	6.7	2	6.7	8	26.7	0	0.0
Controls Testing	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Interim Testing	1	3.3	7	23.3	7	23.3	17	56.7	4	13.3
Year-end Testing	0	0.0	0	0.0	2	6.7	2	6.7	20	66.7
Concluding Procedures	0	0.0	0	0.0	0	0.0	0	0.0	6	20.0
Total	30	100	30	100	30	100	30	100	30	100
Mode	**Planning**		**Pre-planning**		**Planning**		**Interim Testing**		**Year End Testing**	

TABLE 3
Determining CAMs

Panel A: CAM Topics Considered and Reported



We asked participants to indicate "the general subject areas of issues you identified as potential CAMs on this engagement" and "the general subject areas of CAMs you ultimately reported."

TABLE 3, Continued

Determining CAMs

Panel B: Factors Important to CAM Determination Decisions

	N	Mean	Std. Dev.	Median
Estimation Uncertainty	30	4.47	0.94	5
Risk of Material Mistatement	30	4.27	0.87	5
Use of Specialists	30	3.73	0.98	4
Effort Required	30	3.53	1.14	4
Nature of Audit Evidence	30	3.20	1.16	3
Unusual Transactions	30	3.03	1.52	3
Difficulty Evaluating Audit Evidence	30	2.83	1.37	3
Difficulty Selecting Audit Procedures	30	2.50	1.28	2
Client's Prior-Year CAMs	23	1.57	0.99	1
Other	8	1.00	0.00	1

We asked participants "How important were each of the following factors in your determination of whether these potential CAMs were ultimately disclosed as CAMs for your engagement?" Participants responded on a 5-point scale, where 1=not at all important and 5 = very important.

Panel C: Information Auditors Refer to in Making CAM Decisions

	N	Mean	Std. Dev.	Median
Firm Training/ Guidance	30	4.77	0.77	5.0
Auditing Standards	30	4.27	0.87	5.0
Other Standard-Setter Guidance	28	3.39	1.52	3.5
CAMs for firms in the Same Industry	30	3.23	1.22	3.0
Other CAMs your Firm Issued	29	3.14	1.09	3.0
Prior Year CAMs for this Client	22	1.95	1.43	1.0
CAMs You Issued on Other Clients	28	1.93	1.21	1.0
Other Information	8	1.00	0.00	1.0

We asked participants "To what extent did you refer to the following information in making CAM decisions for your engagement?" Participants responded on a 5-point scale, where 1=not at all and 5 = very much.

TABLE 4

Personnel Participating in CAM Reporting

Panel A: Engagement Team Personnel Directly Assisting in CAM Reporting

	N	Mean	Std. Dev.	Median
Senior Managers	29	4.45	0.83	5
Engagement Quality Review Partner	30	4.03	0.93	4
Other Engagement Partners/ Directors	30	3.80	1.24	4
Managers	30	2.87	1.33	3
Valuation Specialists	28	2.14	1.04	2
Tax Specialists	29	2.07	1.19	2
Other Audit Professionals	20	1.95	1.64	1
National Office	5	4.60	0.89	5
Seniors	29	1.83	0.93	2
Associates/Staff	29	1.34	0.55	1
IT Specialists	28	1.32	0.55	1
Forensic Specialists	28	1.04	0.19	1

We asked participants "To what extent did the following engagement personnel directly assist you with CAM reporting for this engagement?" Participants responded on a 5-point scale, where 1 = not at all and 5 = very much.

Panel B: Personnel Consulted Regarding CAM Reporting

	N	Mean	Std. Dev.	Median
Engagement Quality Review Partner	30	4.53	0.68	5
National Office Partners	30	3.83	1.37	4
Local Office Partners	29	2.55	1.53	2
Regional Office Partners	27	1.93	1.24	1
In-house Legal	28	1.07	0.38	1
Outside Legal	28	1.04	0.19	1

We asked participants "To what extent did you consult with the following individuals about CAM reporting for this engagement?" Participants responded on a 5-point scale, where 1 = not at all and 5 = very much.

TABLE 5

Number of Participants Reporting Major Interview Themes

	N	Percent
Auditors' Informal Rules for Producing Comfort with CAMs (RQ2)		
#1 Don't be an Outlier	28	97%
#2 Reporting Zero CAMs is Taboo	22	76%
#3 Report at Least One Recurring CAM [1]	8	28%
#4 No Surprises for the Client	29	100%
#5 No Surprises for Investors	26	90%
Auditors' Views of CAM Outcomes (RQ3):		
CAMs are not Useful [2]	15	52%
Requiring One CAM is Detrimental [3]	10	34%
Struggle to Define High Quality CAM Content [4]	11	38%

This table reports the number and percent of participants who mentioned each theme at least once in their interview. Our discussion of these themes in the results section is based both on these frequency counts and how often participants returned to each theme in explaining the pervasive forces influencing their CAM decisions.

1. While fewer participants described this theme, we identify it as a rule because: (a) it was a firm-level expectation at three of the big four accounting firms, and (b) participants discussed this strategy as a corollary of rule number two, "reporting zero CAMs is taboo." We therefore believe that some participants who subscribed to this practice did not feel the need to mention it separately.
2. A participant's exclusion from this count does not imply they espoused the opposing view that CAMs are useful. Except for the few participants we discuss in the deviant case analysis at the end of Section 4.3.1, these subjects did not express an opinion on the usefulness of CAMs.
3. The remaining participants did not express opinions about the rule against reporting zero CAMs.
4. Most of the remaining participants described CAM quality in terms of plain-English writing, rather than content.

TABLE 6

Interactions with Management and the Audit Committee about CAMs

	N	Mean	Std. Dev.	Median
To what extent did your beliefs about the number and nature of CAMs to report change as a result of your conversations with management?	30	1.63	0.81	1
To what extent did your beliefs about the number and nature of CAMs to report change as a result of your conversations with the audit committee?	30	1.43	0.63	1
To what extent did you experience disagreements with management about CAM reporting?	30	1.17	0.46	1
To what extent did you experience disagreements with the audit committee about CAM reporting?	30	1.07	0.25	1
Grand Mean		1.32		1

The table reflects the exact wording of each question. Participants responded on a 5 point scale, where 1 = not at all and 5 = very much.

TABLE 7

Changes Associated with CAM Reporting

	N	Mean	Std. Dev.	Median
Consultation with Local, Regional, and National Office	30	3.73	0.74	4
Extent of Communication with Management and AC	30	3.60	0.67	4
Audit Hours from Participant	30	3.50	0.68	3
Engagement Team Hours	30	3.40	0.62	3
Engagement Quality Review Partner Involvement	30	3.40	0.67	3
Time Needed to Issue the Audit Report	30	3.33	0.55	3
Audit Fee	30	3.23	0.57	3
Appropriateness of Audit Evidence for Complex Accounts	30	3.17	0.65	3
Sufficiency of Audit Evidence for Complex Accounts	30	3.07	0.52	3
Skepticism About Management's Assertions	30	2.97	0.41	3
Use of Specialists	30	2.93	0.45	3
Leverage in Negotions with Management	30	2.87	0.51	3
Consultations with Legal Resources about the Audit Report	30	2.87	0.51	3
Profit Margin on the Audit	30	2.73	0.52	3
Other	11	2.64	0.81	3
Grand Mean		3.16		3

We asked participants: "As compared to last year's audit of the same client, to what extent did the following aspects of the engagement change in the current year because of your work on CAMs?" Participants responded on a 5 point scale, where 1 = decreased greatly, 5 = increased greatly, and 3 = no change.

TABLE 8

CAM Comfort, Goals, and Worries

Panel A: Comfort with CAM Reporting

	N[1]	Mean	Std. Dev.	Median
How would you describe your overall comfort with CAM reporting for this engagement? *5 point scale, where 1= very low and 5=very high*	25	4.44	0.71	5
How familiar are you with the CAM requirements in AS 3101 "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion"? *5 point scale, where 1= very unfamiliar and 5=very familiar*	23	4.48	0.59	5
To what extent do other partners/directors come to you for advice about CAM reporting on their engagements? *5 point scale, where 1= very little and 5=very much*	30	3.23	1.14	3
How would you rate your knowledge of CAM reporting as compared to other partners/directors? *5 point scale, where 1= much lower and 5=much higher*	25	3.44	0.87	3

The table reflects the exact wording and measurement scale we used for each question.

1. Sample size varies because one of our participating firms asked that some items be removed as a condition of their participation.

TABLE 8, Continued

CAM Comfort, Goals, and Worries

Panel B: CAM Goals and Worries

	N[1]	Mean	Std. Dev.	Median
Providing Useful Information to Investors	30	3.67	1.12	4
Negative Inspection Outcomes	25	2.20	1.15	2
Maintaining Good Relationships with Management	30	1.97	0.93	2
Maintaining Good Relationships with the Audit Committee	30	1.97	0.96	2
Litigation	25	1.52	0.92	1
Meeting Budgeted Hours	25	1.16	0.37	1
Achieve Good Compensation and Career Outcomes at the Firm	25	1.16	0.47	1
Meeting Budgeted Engagement Profitability	25	1.12	0.33	1

We asked participants "To what extent were you concerned about each of the following factors as you worked on CAMs for this engagement?" Participants responded on a 5 point scale, where 1 = not at all and 5 = very much.

1. Sample size varies because one of our participating firms asked that some items be removed as a condition of their participation.