

Case 23-4c

ABC Software

ABC Software Inc. (ABC or the “Company”) is an SEC large accelerated filer with a fiscal year-end of December 31, 20X0. The Company develops hardware and software solutions, including an enterprise cloud platform (which can be pre-installed on its hardware or delivered separately), as well as related technical support subscriptions and professional services. ABC engages Public Accounting Firm (the “audit team”) to audit its financial statements, and the audit team issues an opinion on the financial statements in accordance with the standards of the PCAOB. The materiality for the audit engagement for 20X0 is \$100 million.

On March 1, ABC acquired a 100 percent ownership in XYZ Software (XYZ) for a net purchase price of \$1 billion. The transaction was determined to be a significant unusual transaction in the current year because acquisitions are not part of the Company’s normal course of business.

The audit team has identified two significant risks for purposes of the audit: management override of controls and revenue recognition. As disclosed in ABC’s 20X0 Form 10-K, the Company had identified business combinations, revenue recognition, and income taxes as critical accounting policies.

In October 20X0, the Company communicated to its audit committee that a breach of an applicable independence requirement had been identified by the Company during the period under audit. Despite the breach and the extent of the remediation procedures, the audit team concluded that the objectivity and impartiality of the audit engagement had not been impaired.

In June 2017, the PCAOB issued Auditing Standard 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (PCAOB AS 3101). The standard includes a requirement that independent auditors identify and describe in the auditor’s report critical audit matters (CAMs) arising from the audit of current-period financial statements. Paragraph 11 of PCAOB AS 3101 states that a CAM “is any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment.” See Handout 1 for the process flow in identifying, documenting, and communicating CAMs.

For purposes of this case study, assume the excerpt from the audit committee presentation (Handout 3) is the only communication made and required for purposes of the 20X0 audit. Using Handouts 1, 2, and 3, respond to the required discussion items.