

Critical Audit Matters

Insights for Investors

Overview

Beginning in 2019, certain public companies' audit reports will begin to contain new information—critical audit matters, commonly referred to as CAMs. The [PCAOB's standard](#) requiring the auditor to communicate this new information about the audit is intended to make the auditor's report more informative and relevant to investors and other financial statement users. CAMs are intended to provide tailored information specific to the audit—from the auditor's point of view—on matters that require especially challenging, subjective, or complex auditor judgment. Investors may find CAM information useful when considered among other information regarding a company's financial statements.

Through this resource and other outreach efforts, we aim to provide investors with useful information regarding changes to the auditor's report, frequently asked questions about CAMs, and information about the implementation of the standard.

Understanding the Auditor's Report

The auditor's report, filed with a company's annual report or registration statement, is the primary means by which the auditor of a company's financial statements communicates information to investors and other financial statement users. The auditor's report identifies, among other things, the financial statements that were audited, describes the nature of the audit, and presents the auditor's opinion as to whether the financial statements present fairly—in all material respects—the financial position, results of operations, and cash flows of the company in conformity with the applicable financial reporting framework.

An auditor is required to plan and perform the audit to obtain reasonable assurance about whether the company's financial statements are free of material misstatement whether caused by error or fraud. Once the auditor completes the audit, the auditor will issue a report containing an opinion on whether the financial statements are fairly presented. The company will include that report in its annual report or registration statement filed with the U.S. Securities and Exchange Commission (SEC).

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Recent Changes

In 2017, the PCAOB made significant changes to its auditing standards related to the form and content of the auditor's report. The intent of these changes is to make the report more useful and relevant to investors and other financial statement users. In addition to the auditor's opinion, there are now more required communications to be made by the auditor.

The enhancements to the auditor's report were designed to be instituted in phases, the first of which made a number of improvements to clarify the auditor's role and responsibilities related to the audit, including communication of auditor tenure. [Those changes](#) took effect for audits of fiscal years ending on or after December 15, 2017. The second phase requires auditors to communicate CAMs in order to provide enhanced information to investors and other financial statement users about the audit of a company's financial statements, specifically regarding matters that required especially challenging, subjective, or complex auditor judgment, and the auditor's response to those matters.

The Basics

The PCAOB's standard requires an auditor to determine CAMs using a principles-based framework.

CAM Definition

A CAM is any matter arising from the audit of a company's financial statements that meets all of the following criteria:

- A matter that was communicated or is [required to be communicated to the audit committee](#);
- A matter that relates to accounts or disclosures that are material to the financial statements; and
- A matter that involved especially challenging, subjective, or complex auditor judgment.

CAM Communication

When an auditor communicates a CAM in the auditor's report, the auditor is required to do all of the following:

- Identify the CAM;
- Describe the principal considerations that led the auditor to determine that the matter is a CAM;
- Describe how the CAM was addressed in the audit; and
- Refer to the relevant financial statement accounts or disclosures that relate to the CAM.

Effective Dates

For audits of large accelerated filers, CAM requirements are effective for fiscal years ending on or after June 30, 2019. For audits of all other companies to which they apply, CAM requirements are effective for fiscal years ending on or after December 15, 2020.

Audits that do not require CAMs

CAMs are not required for audits of:

- Brokers and dealers reporting under Rule 17a-5 under the Securities Exchange Act of 1934;
- Registered investment companies other than business development companies;
- Employee stock purchase, savings, and similar plans; or
- Emerging growth companies.

For additional information, [view our Basics document](#).

PCAOB Staff Responses to FAQs

Through outreach to investors, audit committees, preparers, and other interested parties, the PCAOB has received a number of questions on CAMs. Responses from the staff that may be of interest to investors are included below.

Does the communication of a CAM indicate a misstatement in the financial statements or deficiency in management's process?

CAMs are intended to provide information to investors and other financial statement users about matters arising from the audit of the company's financial statements that required especially challenging, subjective, or complex auditor judgment, and the auditor's response to those matters. CAMs are not necessarily meant to reflect negatively on the company, nor do they necessarily indicate that the auditor found a misstatement or deficiencies in internal control over financial reporting. A CAM also does not alter the auditor's opinion on the financial statements, and the auditor is not providing a separate opinion on the CAM or on the accounts or disclosures to which they relate.

How many CAMs should be communicated?

There is no specific number of CAMs that should be communicated in the auditor's report. The number of matters that are reported as CAMs will depend on the nature and complexity of each company's audit.

Will CAMs be the same within an industry or could they vary among companies?

The requirements for determining CAMs are principles-based, and auditors' application of the requirements depends on the facts and circumstances of each audit. To that end, the PCAOB standard does not prescribe CAMs for a particular industry, and some company's auditors may report no CAMs. Peer companies' audits could have similar CAMs or they could be different. Why the matter is a CAM and how it is addressed could also differ from audit to audit.

Are CAMs expected to be the same each year?

There is no expectation that CAMs be the same each year. Each year, auditors determine and communicate CAMs in connection with the audit of the company's financial statements for the current period. Depending on the circumstances, some matters may be considered CAMs each year, while others may not.

The first year a company is implementing a new accounting standard is an example of a circumstance in which a CAM could be identified in only one year. In year one, auditing the company's implementation of a new accounting standard may require especially challenging, subjective, or complex auditor judgment. This matter, however, may not require the same level of auditor judgment the next year, or it might be a CAM for different reasons than in the first year of implementation.

If a public company experiences a significant event, such as a cybersecurity breach, will that be a CAM?

The requirements for determining CAMs are principles-based, and auditors' application of the requirements depends on the facts and circumstances of each audit. Events such as cybersecurity breaches could affect the financial statements and become the subject of communications between the auditor and the audit committee.

When an auditor evaluates such events for purposes of determining CAMs, they will consider the impact the event had on the audit. This will largely depend on the nature and extent of the audit response required to address any affected accounts and/or disclosures.

What is the relationship between CAMs and a company's disclosures regarding critical accounting estimates?

Critical accounting estimates may overlap with CAMs, but they are not the same. [Under SEC interpretation](#), companies should provide a discussion in the Management Discussion and Analysis (MD&A) about critical accounting estimates and assumptions where:

- The nature of the estimates or assumptions is material because of the levels of subjectivity and judgment needed to account for matters that are highly uncertain or susceptible to change; and
- The effect of the estimates and assumptions is material to the financial statements.

While some critical accounting estimates or components of those estimates may be the subject of a CAM, not all necessarily will. Further, the source of CAMs is broader than just critical accounting estimates because the source of CAMs includes all matters communicated or required to be communicated to the audit committee.

Do management and the audit committee review and approve CAMs?

No. While the auditor is required to share the draft auditor's report including any CAMs identified with the audit committee, CAMs are the

sole responsibility of the auditor. The standard is designed to elicit more information about the audit directly from the auditor. As the auditor determines how best to comply with the communication requirements, the auditor could discuss with management and the audit committee the treatment of any sensitive information.

What is the interaction between CAMs and company disclosures outside of the financial statements?

When communicating CAMs, auditors are required to refer to the relevant financial statement accounts or disclosures rather than to disclosures outside of the financial statements. Company disclosures outside of the financial statements may, however, be relevant in the context of CAM communication.

When describing CAMs in the auditor's report, the auditor is generally not expected to provide information about the company that has not been made publicly available by the company. Such information, however, may be necessary to describe the principal considerations that led the auditor to determine that a matter is a CAM or how the matter was addressed in the audit. Information a company has made publicly available includes all means of public communication, whether within or outside the financial statements, including SEC filings, press releases, and other public statements.

Are CAMs the same as Key Audit Matters (KAMs)?

While both the PCAOB's requirement and the [International Auditing and Assurance Standards Board \(IAASB\)'s standard](#) use auditor communications with the audit committee as the starting point for sources of communications, the underlying requirements are different:

- KAMs focus on matters that were of most significance during the audit.
- CAMs focus on matters involving especially challenging, subjective, or complex auditor judgment related to accounts or disclosures that are material to the financial statements.

Due to the differences in definition and underlying requirements, it is possible that differences could result in the matters identified or how matters are described in the auditor's report. However, it is also possible that many of the same matters could be communicated under both approaches.

What are the PCAOB's next steps on CAMs?

The PCAOB will monitor and analyze implementation through three primary channels and consider whether any additional guidance might be needed:

1. Stakeholder feedback. Once the initial implementation of CAMs begins in June 2019, the PCAOB will perform an interim analysis on the implementation of the standard to assess stakeholders' experiences and results. The staff will engage with stakeholders, including auditors, investors, financial statement preparers, and audit committee members, through interviews, surveys and other outreach to learn about stakeholders' experience with CAMs.

If you would like to be contacted to provide feedback on CAMs, [please contact our Stakeholder Liaison](#).

2. Compliance and inspections. We will promote compliance through the inspection of audit firms after the changes are implemented. Inspection teams will have the first opportunity to review CAMs in the second half of 2019, starting with auditor's reports of large accelerated filers subject to the CAM requirements for fiscal years ending on or after June 30, 2019. PCAOB staff expects to issue a document outlining preliminary observations from the initial inspections performed in 2019.

3. Post-implementation review. The PCAOB will conduct a post-implementation review to analyze the effectiveness of the new requirements after a reasonable period of time following the completion of implementation in December 2020, and reevaluate costs and benefits of the new standard, including any unintended consequences, to understand the overall impact on investors, the audit profession, public companies, and other users of the financial statements.

About the PCAOB

The Public Company Accounting Oversight Board is a nonprofit corporation established by Congress to oversee the audits of public companies, brokers, and dealers in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports. The PCAOB sets auditing standards for the audits of public companies, brokers, and dealers and has authority to inspect, investigate, and discipline registered public accounting firms regarding compliance with the Sarbanes-Oxley Act of 2002, the rules of the PCAOB and the U.S. Securities and Exchange Commission, and professional standards.

Stay Connected

The Board is committed to enhancing external engagement with investors and providing an avenue for ongoing communication. In addition to this resource on critical audit matters, investors may be interested in our [Form AP overview](#) and [AuditorSearch](#) tool. If you have other topics that you would like more information on, additional questions regarding our resources or CAMs, or if you are interested in engaging with the PCAOB, please [contact our Stakeholder Liaison, Erin Dwyer](#).

We want to hear from you

In an effort to continue to improve external communications and provide information that is timely, relevant, and accessible, we want to hear your views regarding this document. Please take a few minutes to [fill out our short survey](#).



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