

**Webinar:**  
**The New Auditor's Report**  
**and**  
**Critical Audit Matters**

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## WELCOME AND OPENING REMARKS



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## **PRESENTERS**

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# **ADMINISTRATIVE ITEMS**

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- **CPE**
  - Participation in polling questions
- **Questions?**
  - Visit <https://pcaob.cnf.io>
  - Click on today's date
  - Click on the plus sign in the Social Q&A
  - Enter your question and click "Submit"
- **Technology issues during the webinar?**
  - Contact [haasm@pcaobus.org](mailto:haasm@pcaobus.org)
- **Evaluations**

## **DISCLAIMER**

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**The views expressed by the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.**

## **LEARNING OBJECTIVES**

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- Describe the requirements for determination, communication, and documentation of critical audit matters (CAMs).
- Locate the resources and tools available to assist with the CAM implementation.

## **WEBINAR TOPICS**

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- Overview of CAMs
- Requirements for CAM determination, communication, and documentation
- Additional considerations
- Resources available

# OVERVIEW

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- *AS 3101, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*
- **CAM Effective Dates**
  - **Large accelerated filers:** Audits for fiscal years ending on or after June 30, 2019
  - **All other companies to which the requirements apply:** Audits for fiscal years ending on or after December 15, 2020

## **OVERVIEW**

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- **CAM requirements do not apply to audits of:**
  - Broker-dealers reporting under S-X Rule 17a-5
  - Investment companies, other than business development companies
  - Employee benefit plans
  - Emerging growth companies
- **Auditors of these entities may choose to report CAMs voluntarily.**

# OVERVIEW

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- **Staff guidance on the implementation of CAMs:**
  - The Basics
  - Staff Observations from Review of Audit Methodologies
  - A Deeper Dive on the Determination of CAMs

**Questions?**  
**[pcaob.cnf.io](https://pcaob.cnf.io)**

## **POLLING QUESTION**

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**How many large accelerated filers will be first impacted by the CAM requirements for June 30, 2019 fiscal year ends?**

- 1. 5**
- 2. 50**
- 3. More than 70**



## **POLLING QUESTION: ANSWER**

**How many large accelerated filers will be first impacted by the CAM requirements for June 30, 2019 fiscal year ends?**

1. 5

2. 50

**3. More than 70**

## **WHAT IS A CAM?**

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**Definition:** 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,
- Relates to accounts or disclosures that are material to the financial statements, and
- Involved especially challenging, subjective, or complex auditor judgment.

# CAM DETERMINATION

Communicated or  
required to be  
communicated to the  
audit committee



CAMs are drawn from matters  
required to be communicated to the  
audit committee (even if not actually  
communicated) and matters actually  
communicated (even if not required).

The standard does not exclude any  
required audit committee  
communications from the source of  
CAMs.

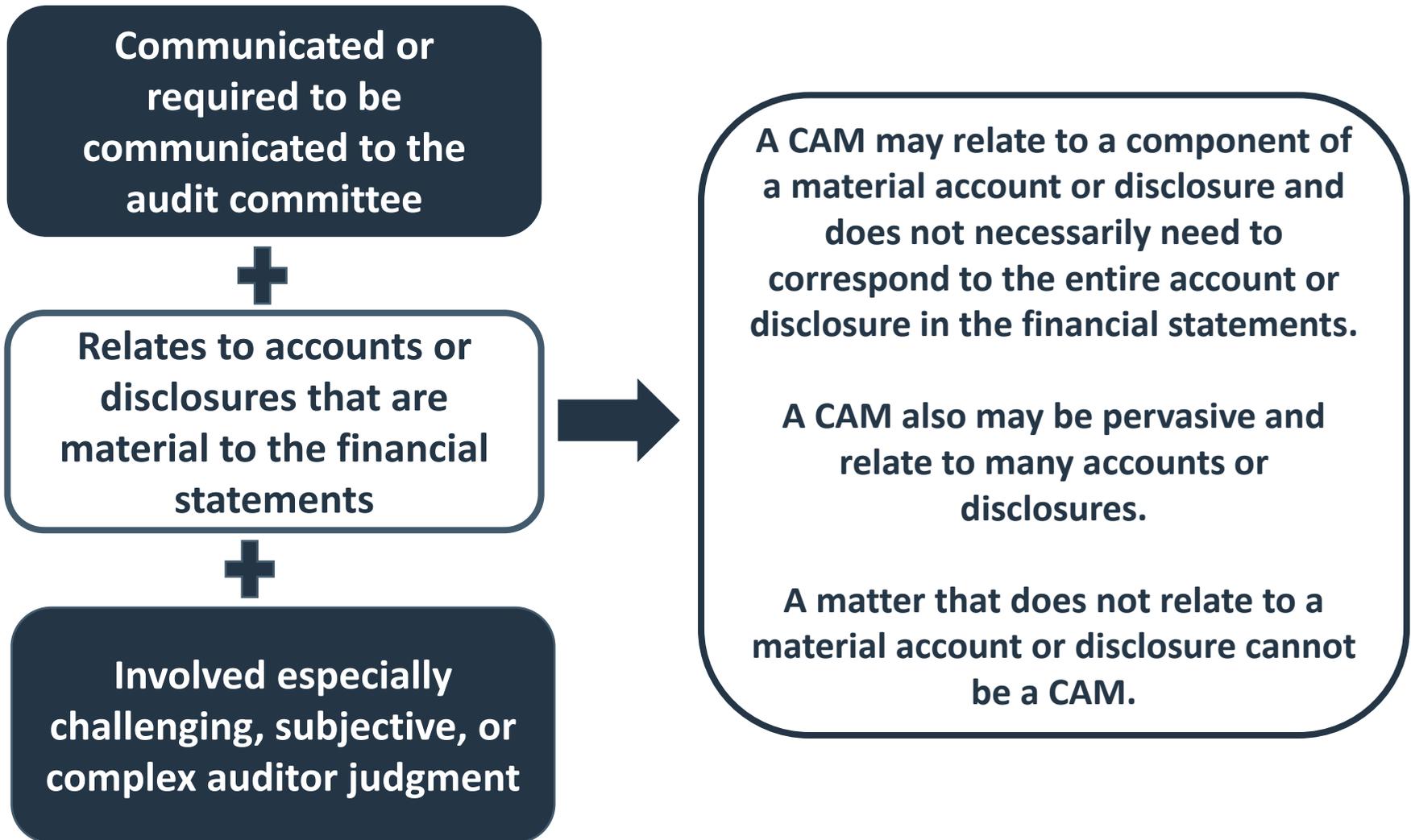


Relates to accounts or  
disclosures that are  
material to the financial  
statements



Involved especially  
challenging, subjective, or  
complex auditor judgment

# CAM DETERMINATION



# CAM DETERMINATION

Communicated or required to be communicated to the audit committee



Relates to accounts or disclosures that are material to the financial statements



Involved especially challenging, subjective, or complex auditor judgment



"Especially" is intended to convey that the matters are assessed on a relative basis within the specific audit and there could be multiple CAMs.

A list of factors is provided for the auditor to take into account in determining whether a matter involved especially challenging, subjective, or complex auditor judgment.

# CAM FACTORS

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In determining whether a matter involved especially challenging, subjective, or complex auditor judgment, the auditor should take into account, alone or in combination, the following factors, as well as other factors specific to the audit:

- a. Risks of material misstatement, including significant risks
- b. The degree of auditor judgment related to areas in the financial statements
- c. Significant unusual transactions
- d. The degree of auditor subjectivity in applying audit procedures
- e. The nature and extent of audit effort required
- f. The nature of audit evidence obtained

## **POLLING QUESTION**

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**Can the auditor take into account factors other than those listed in the standard when determining if a matter is a CAM?**

- 1. Yes**
- 2. No**



## POLLING QUESTION: ANSWER

Can the auditor take into account factors other than those listed in the standard when determining if a matter is a CAM?

1. Yes

2. No



## STAFF GUIDANCE:

# DETERMINATION CONSIDERATIONS

- Should CAM determinations be consistent across auditors, or will CAMs vary depending on the auditor?
- Are CAMs expected to vary from year to year or should they be consistent?
- How should significant events or matters pertaining to the company's overall business operations or economic or regulatory environment be evaluated for purposes of determining CAMs?

## STAFF GUIDANCE:

# DETERMINATION CONSIDERATIONS

- How should a material weakness or significant deficiency in internal control over financial reporting be considered when determining CAMs?
- What is the relationship between CAMs and a company's disclosures regarding critical accounting estimates?

Questions?  
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## **POLLING QUESTION**

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**For what period are CAMs required to be communicated?**

- 1. Current period only**
- 2. Current and prior periods**
- 3. All periods presented in the F/S**



## **POLLING QUESTION: ANSWER**

**For what period are CAMs required to be communicated?**

- 1. Current period only**
2. Current and prior periods
3. All periods presented in the F/S

## **CAM FINANCIAL STATEMENT PERIOD**

- CAMs are required for the audit of the current period financial statements only.
- The auditor may communicate CAMs relating to a prior period. For example:
  - The prior period's financial statements are made public for the first time, such as in an initial public offering, or
  - Issuing an auditor's report on the prior period's financial statements because the previously issued auditor's report could no longer be relied upon.

# **CAM COMMUNICATION**

- **For each CAM communicated in the auditor's report, the auditor must:**
  - 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.

**Questions?**  
**[pcaob.cnf.io](https://pcaob.cnf.io)**

# CAM COMMUNICATION

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

Refer to the relevant financial statement accounts or disclosures that relate to the CAM

Be specific to the circumstances and provide a clear, concise, and understandable discussion of why the matter is a CAM.

Tailor communication to the audit to avoid standardized language and to reflect specific circumstances of the matter.

Simply stating that a CAM was especially challenging, especially subjective, or especially complex—or some combination of those—does not fulfill the requirement of the standard without specific language explaining why.

# CAM COMMUNICATION

**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**

**Refer to the relevant financial statement accounts or disclosures that relate to the CAM**



The description may include any, or a combination, of the following:

- The auditor's response or approach that was most relevant to the matter,
- A brief overview of the procedures performed,
- An indication of the outcome of the audit procedures, or
- Key observations with respect to the matter.

# CAM COMMUNICATION

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**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**

**Refer to the relevant financial statement accounts or disclosures that relate to the CAM**



**A CAM may relate to one or more account(s) or disclosure(s) or both.**

# LANGUAGE PRECEDING CAMS IN THE AUDITOR'S REPORT

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- The CAM section of the auditor's report is required to be titled "Critical Audit Matters."
- When communicating CAMs in the auditor's report, the following introductory language is required:

## Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

- If the auditor communicates CAMs for prior periods, the introductory language should be modified to indicate the periods to which the CAMs relate.

## **POLLING QUESTION**

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**Can an audit have no CAMs?**

**1. Yes**

**2. No**



## POLLING QUESTION: ANSWER

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Can an audit have no CAMs?

**1. Yes**

2. No

## **AUDITS WITH NO CAMS**

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- There may be circumstances in which the auditor determines there are no CAMs.
- The following language is required:

### **Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

## **POLLING QUESTION**

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**When a matter meets the definition of a CAM and also requires an explanatory paragraph, only the CAM communication is required in the auditor's report.**

- 1. True**
- 2. False**



## **POLLING QUESTION: ANSWER**

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**When a matter meets the definition of a CAM and also requires an explanatory paragraph, only the CAM communication is required in the auditor's report.**

1. True

**2. False**

# CAM INTERACTION WITH EXPLANATORY AND EMPHASIS PARAGRAPHS

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- **Required explanatory paragraphs**
  - Include the required CAM communication in the explanatory paragraph with a cross-reference to the explanatory paragraph in the CAM section, or
  - Provide both CAM and explanatory paragraphs
- **Emphasis paragraphs**
  - If a matter that the auditor considers emphasizing meets the definition of a CAM, the auditor would provide the information required for a CAM, and would not be expected to include an emphasis paragraph in the auditor's report.

**Questions?**  
**[pcaob.cnf.io](http://pcaob.cnf.io)**

# **CAM DOCUMENTATION**

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- **For each matter arising from the audit of the financial statements that:**
  - Was communicated or required to be communicated to the audit committee, and
  - Relates to accounts or disclosures that are material to the financial statements

the auditor must document whether or not the matter was determined to be a critical audit matter and the basis for such determination.

## **CAM DOCUMENTATION**

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- **For matters determined to be CAMs**
  - The description in the auditor's report will generally suffice as documentation.
- **For matters determined not to be CAMs documentation could vary**
  - A single sentence may be sufficient for some matters.
  - Other matters may require more extensive documentation.

## ADDITIONAL CONSIDERATIONS

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- Role of the Engagement Quality Reviewer
- Interactions with the Audit Committee

Questions?  
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# RESOURCES

- **Auditing Standard: AS 3101**
- **Adopting Release: PCAOB Release No. 2017-001**
- **SEC Action: Release No. 34-81916**
- **Fact Sheet**
- **Implementation of CAMs: The Basics**
- **Implementation of CAMs: Staff Observations from Review of Audit Methodologies**
- **Implementation of CAMs: A Deeper Dive on the Determination of CAMs**
- **Staff Guidance – Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After Dec. 15, 2017**
- **Annotated Example Auditor's Report for the Audit of a Broker or Dealer**

## Recent PCAOB Standards and Rules



### New Auditor's Report

The new standard requires the auditor to communicate critical audit matters, auditor tenure, and several other improvements.

[Learn more >](#)

<https://pcaobus.org/Standards/Implementation-PCAOB-Standards-rules/Pages/def.aspx>

**QUESTIONS**

**KEY TAKEAWAYS**

**Thank you for participating in  
today's webinar on CAMs.**

**An evaluation will be sent to you shortly.  
We appreciate your feedback.**